# Assessing the Performance of Islamic Banks Compared to Conventional Banks in Bangladesh

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Dedication

To my dearest parents:

Abdus Samad

&

Monowara Begum

For inspiration and support throughout the period of my studies, dedication goes-

To my beloved wife: Shahinur Rahman

For the sacrifices of the joyous time throughout the duration of my studies, dedication also goes-

To my dearest daughters:

Mahibah Hossain

Iqra Hossain

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I would also like to thank my all family members especially my wife who inspired me about this PhD and sacrificed her times. I appreciate all the respondents who took part in filling the questionnaires and the bank managers who facilitated me in administering the questionnaires among the employees.

## Declaration

*I hereby declare that this piece of work is original and has not been submitted previously for any academic purpose. All secondary sources are acknowledged.*

## Abstract

Traditionally banking performance is measured considering financial information that has been criticised by academics and entrepreneurs. Financial performance measurement only focuses on the financial measures that mislead the users of the accounts although it worked well in the industrial era. The limitation of financial measures is that it emphases on the past financial information which provides an incomplete and narrow picture of banks' performance. It is because the reliance on the past financial information hinders the future value of banks. The traditional way of performance measurement can be supplemented with the one that includes both financial and nonfinancial measures. Thus, this research aims to measure the performance of Islamic banks compared to conventional banks in Bangladesh based on the four aspects of performance that includes customer satisfaction, employee satisfaction, internal business process, and financial performance.

Based on a positivist philosophy, this study collects quantitative data from primary and secondary sources by using questionnaire and from the sampled banks' annual financial statements respectively. The data are analysed statistically through descriptive statistics and inferential analysis by using SPSS. The findings of the study suggest that Islamic banks perform higher compared to conventional banks in all four aspects of performance. The superior performance of Islamic banks is believed due to the distinct characteristics of Islamic banks, customers' religiosity, and employees' religiosity that positively impact the four aspects of performance.

This study provides distinct contributions theoretically and practically. It bridges a gap in the literature in relation to measuring the performance of Islamic banks compared to conventional banks based on financial and non-financial measures. This study also empirically contributes to the literature of customer satisfaction, employee satisfaction, internal business process, and financial performance measurement in the case of Bangladesh. The findings of the current study provide the underperforming banking sector with an indication of the areas to improve, and enable the banks' stakeholders to predict the future values of the banks for building their decisions towards the banks.

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# CHAPTER ONE

# INTRODUCTION

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# INTRODUCTION

## 1.1 Research Background

Performance measurement is a part of the performance management system which can be defined as a metric used to quantify the efficiency and/or effectiveness of action (Neely et al., 1995; Hourneaux et al., 2017). The importance of performance measurement has been emphasised in the period between 1824-1907 by a British mathematician and physicist Lord Kelvin. In this regard, one of his famous statement is that, “when you can measure what you are speaking about, and express it in numbers, you know something about it; but when you cannot measure it, when you cannot express it in numbers, your knowledge is of a meagre and unsatisfactory kind. If you cannot measure it, you cannot improve it” (Lord Kelvin 1824-1907, cited in Neely, 2007, p. 134; Kaplan, 2009, p. 3).

Over the last three decades, performance measurement is gaining increased popularity among academics and practitioners. It has a commonplace in all sectors of business including the public sectors (Bititci et al., 2012). It is perceived as a critical management tool that determines the success or failure of an operation and the overall performance of an organisation. Hence, since the Great Depression (1929-1939), academic researchers have shown a great interest in performance measurement of the commercial banks as it plays an important role in allocating the economic resources of a country and continuously channel funds from depositors to investors (Ongore and Kusa, 2013; Temin, 1991). Accordingly, it can be stated that assessing the performance of banks is essential for all parties from depositors to bank managers and regulators (Samad and Hassan, 1999).

Traditionally, banking performance is measured based on financial information using the techniques such as ratios analysis, data envelope analysis, stochastic frontier approach. However, the traditional performance measurement methods have been criticised by academics and entrepreneurs (Kaplan and Norton,1996, Kanji, 1998; Neely et al., 2001; EFQM, 2013) because it focuses only the financial measures that mislead the users of the accounts although it worked well at the industrial era (Kaplan and Norton,1996).

The limitation of the financial measures is that it concentrates on the past financial information which provides an incomplete and narrow picture of the bank's performance. The reliance on the past financial information hinders the future value of the banks. As such, the traditional measurement should be supplemented with the ones that include financial and non-financial measures (Kaplan and Norton, 1996; Kaplan, 2009). To complement the financial measurement of past performance with the measures of the drivers of the future performance, Kaplan and Norton introduced a performance measurement framework called Balanced Scorecard (BSC) in 1992. Balanced scorecard includes financial and non-financial performance measures from four perspectives which are learning and growth perspective, internal business process perspective, customer perspective, and financial perspective.

The literature in the area of employee satisfaction suggests that a predominant measure for learning and growth perspective is employee satisfaction (Pareek, 2013; Hassan et al., 2013; Deshpande, 2012; Herzberg et al.,1959). Employee satisfaction is closely related to the internal business process based on the notion that when employees are satisfied, they perform higher to ensure an effective and efficient internal business process (EFQM excellent model, 2013; Neely et al., 2001; Kaplan and Norton, 1996). A robust internal business process of a bank confirms its products and services satisfy the needs and expectations of customers (Kaplan and Norton, 2001) which consequently increase customer satisfaction (Buavaraporn and Tannock, 2013). The customer aspect of the Balanced Scorecard includes customer value proposition (the attributes of a product or service) (Kaplan and Norton, 2001) that contribute to customer satisfaction (Lebas and Euske, 2002 cited in Neely, 2002, p.69). Literature in the field of customer satisfaction confirms that customer satisfaction increases the purchase intention and retains existing customers that ensure a superior financial performance (Oliver 1981, Mittal et al., 2001; Anderson and Sullivan, 1993, Mittal and Kamakura, 2001; Sun and Kim, 2013; Jham and Khan, 2009).

However, the four aspects of performance discussed above are highly influenced by religiosity in the case of the performance of Islamic banks. In Islam, Prophet Mohammad (peace be upon him) mentioned that "*al-din muamala*" (cited in Ali, 2010, p. 694) that means every effort of human is an act of worship if it is compatible with the commandments of religion. Hence, working for Islamic banks itself acts as a dominant motivational factor for employees because their activities are in line with the Quran and Sunnah. During the global financial crisis of 2007-2008, conventional banks faced enormous losses while Islamic banks survived (Khediri et al., 2015; Hasan and Dridi, 2010). One of the reasons for the survival of Islamic banks is the nature of asset-backed financing (Parashar, 2010). This restricted Islamic banks from making imprudent and excessive lending which created the crisis for the conventional banks (Hasan and Dridi, 2010). Therefore, the world financial crises would not have occurred if the principles of Islamic banking had applied (Chapra, 2008). Additionally, it indicates that the internal business process of Islamic banks is robust compared to conventional banks. Moreover, Glorious Quran (chapter 2, verse 280) says "if debtors are in financial difficulty, then allow them time until they become solvent to repay the debt. But it was better for you to consider the debt as a charity if you only knew". This verse of the Quran urges Islamic banks to treat their debtors with justice and fairness that consequently increases customer satisfaction. Besides, the customers of Islamic banks are satisfied because of the religiosity that prepares them to pay the rent to receive the *Shariah* compliance services (Abedifar et al., 2013). As religiosity positively impacts on customer satisfaction, employee satisfaction, and internal business process of Islamic banks, these result in a superior financial performance.

A systematic search of the extant literature to date confirmed that comparative studies of banks' performance have been carried out based on financial performance. For example, the studies of Khan et al. (2017) in Pakistan, Bilal et al. (2016) in Oman, Erol et al. (2014) in Turkey, Rahman (2011) in Bangladesh, Wasiuzzaman and Umadevi (2013) in Malaysia, Siraj and Pillai (2012) in GCC region, Ika and Abdullah (2011) in Indonesia and Fayed (2013) in Egypt.

As there is no evidence in the literature of banks' performance that includes nonfinancial measures in measuring performance comparatively between Islamic banks and traditional banks, this study aims to measure the performance of Islamic banks and conventional banks based on financial and nonfinancial parameters in the case of Bangladesh. In addition, to have a more meaningful analysis, this research will conduct a comparative analysis between Islamic and conventional banks in interpreting the research outcomes. In line with the research background, the aim and objectives of the current research are identified in section 1.2.

## 1.2 Research Aims and Objectives

This study aims to measure the performance of Islamic banks compared to conventional banks based on financial and nonfinancial parameters in the case of Bangladesh.

Accordingly, the objectives of the research are as follows:

i. To measure the level of customers' satisfaction of Islamic banks compared to conventional banks in Bangladesh.
ii. To examine the level of employees' satisfaction of Islamic banks compared to conventional banks in Bangladesh.
iii. To assess the internal business process of Islamic banks compared to conventional banks in Bangladesh.
iv. To evaluate the financial performance of Islamic banks compared to conventional banks in Bangladesh.

## 1.3 Research Question

Following the aim and objectives, this research seeks to answer the question outlined below:

> Is the performance of Islamic banks superior over conventional banks in the case of Bangladesh?

To answer the question above, the following sub-questions have been raised:

i. How Islamic banks perform in terms of employee satisfaction perspective compared to conventional banks in Bangladesh?

ii. How Islamic banks perform in relation to internal business process compared to conventional banks in Bangladesh?
iii. How Islamic banks perform in light of customer satisfaction compared to conventional banks in Bangladesh?
iv. How Islamic banks perform with regards to financial performance compared to conventional banks in Bangladesh?

### 1.4 Significance of the Study

The current study has distinctive contributions to the area of bank performance measurement in the case of Bangladesh. It is unique as it measures the performance of banks by considering the financial and nonfinancial aspects of performance that previous research failed to adopt. Hence, the current research makes the following contributions to knowledge.

This study bridges a gap in the literature in relation to measuring the performance of Islamic banks compared to conventional banks based on financial and non-financial measures. The existing literature examined bank performance theoretically rather than empirically, therefore, it can be stated that this study bridges the gap in the literature by conducting an empirical investigation of banks' performance comparatively between Islamic and conventional banks in Bangladesh.

Given the research aims and objectives, this study empirically contributes to the literature related to customer satisfaction, employee satisfaction, internal business process, and financial performance measurement in the case of Bangladesh. Hence, the findings of this study provide the underperforming banking sector, Islamic and conventional, with an indication about the areas to improve for superior performance.

Furthermore, as this study includes the nonfinancial measures in measuring the banks' performance, it enables the banks' stakeholders to predict the future values of the banks and to build their decisions towards these banks.

The survey of the literature to date confirms that no comparative study of Islamic and conventional banks in Bangladesh adopts the concept of four perspectives of the Balanced Scorecard in measuring the banks' performance. Hence, this research is claimed to be the first comparative study applying the concept of Balanced Scorecard in measuring the performance of Islamic banks and conventional banks in a comparative manner in the case of Bangladesh.

### 1.5 Research Gap and Motivation

Since 1983, banking services are being provided in Bangladesh from the platform of conventional banks and Islamic banks (Mamun, 2014). Bangladesh is the first country in Southeast Asia that introduces Islamic banking services through the establishment of Islamic Bank Bangladesh Limited. In the highly competitive conventional banking environment, Islamic banks are getting popularity and growing all over the world (Fayed, 2013; Lewis, 2013; Usman and Khan, 2012). Similarly, Islamic banks in Bangladesh are performing higher compared to conventional banks and increasing the market share since started (Mamun, 2014).

However, an in-depth analysis of the existing performance measurement system of Islamic banks suggest that performance is measured based on financial information or measures (financial ratios) which has been criticised by academics and entrepreneurs (Kaplan and Norton,1996, Kanji, 1998; Neely et al., 2001; EFQM, 2013). The limitation of the financial measures is that it misleads the users of the accounts although it worked well at the industrial era (Kaplan and Norton,1996). This is because it concentrates on the past financial information which provides an incomplete and narrow picture of the bank’s performance. The reliance on past financial information hinders the future value of the banks. As such, the traditional measurement should be supplemented with the ones that include financial and non-financial measures (Kaplan and Norton, 1996; Kaplan, 2009). To complement the financial measurement of past performance with the measures of the drivers of the future performance, Kaplan and Norton introduced a performance measurement framework called Balanced Scorecard (BSC) in 1992. Balanced scorecard includes financial and non-financial performance measures from four perspectives which are learning and growth perspective, internal business process perspective, customer perspective, and financial perspective.

As the existing studies measure the performance of Islamic banks based on financial information, there is a crucial need to conduct a study that measures Islamic banks' performance in Bangladesh by considering both financial and non-financial aspects of performance. Therefore, the gap in the literature of bank performance measurement in Bangladesh is that it does not include the non-financial information in measuring banks' performance. Hence, this research seeks to bridge this gap by measuring banks' performance from both financial and nonfinancial aspects of performance. In order to have a better understanding of performance, this study measures the performance of Islamic banks comparatively by including conventional banks.

In addition, as this study measures the banks' multi-dimension performance in a comparative manner, there is also no evidence in the literature of comparative study of banks' performance which has been conducted empirically between Islamic and conventional banks in Bangladesh. Therefore, this further gives the research a motivation to conduct the study empirically in Bangladesh which consequently fills the gap in the literature.

Moreover, the BSC is the most popular framework for performance measurement (Al-Hosaini and Sofian, 2015; Kald and Nilsson, 2000; Norreklit, 2000). The example of the studies that measure bank performance based on the BSC includes Ibrahim (2015) in Nigeria, Amiri (2012) in Iran, Wu et al. (2009) in Taiwan, and Al-Najjar (2012) In Iraq. However, a systematic search of the current literature to date suggests that no study has been conducted in Bangladesh that adopts the concept of four aspects of performance presented by the BSC to measure the bank performance. Therefore, it is a gap in the literature of bank performance measurement in Bangladesh which encourages the researcher of the current study to adopt the concept of the BSC in measuring the performance of Islamic banks compared to conventional banks in Bangladesh. This subsequently bridges the gap in the body of knowledge in relation to banks' performance measurement.

Furthermore, the SERVQUAL model presented by Parasuraman et al. (1988) is a popular and widely used framework for measuring customer satisfaction of service-oriented organisations. However, as far as the researcher concern, there is no evidence in the existing literature on bank customer satisfaction measurement in Bangladesh that adopts SERVQUAL model in measuring customer satisfaction comparatively between Islamic banks and conventional in Bangladesh. Hence, this motivates the researcher of the current study to apply the SERVQUAL model in measuring customer satisfaction of Islamic banks compared to conventional banks in Bangladesh.

As mentioned earlier that the performance of Islamic banks in Bangladesh is noticeable since the introduction. However, the current performance measurement system has limitations and cannot provides a holistic picture of performance. This motivates the researcher to measure the performance of Islamic banks in Bangladesh in order to provide inclusive information to the stakeholders so that they can predict the future performance of the banks and can build a better decision in selecting their banks.

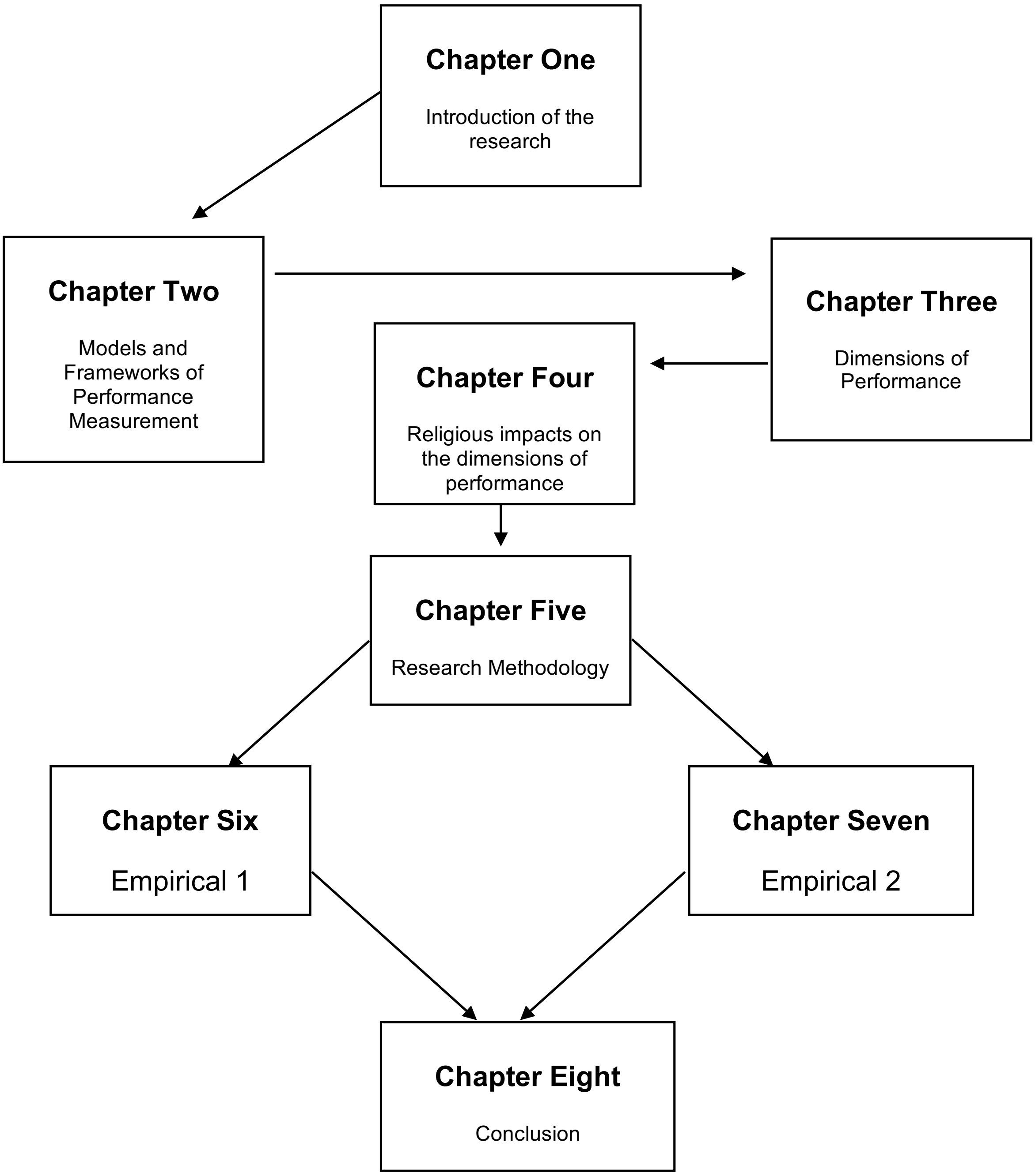
### 1.6 Summary of Research Methodology

This study adopts a positivism philosophy in answering the research questions. By reviewing the existing literature, this study constructs the research question in line with the research aim and objectives. Accordingly, based on the aim and objectives, this research collects quantitative data from primary and secondary sources by deploying questionnaires and from the sampled banks' published annual financial statements respectively.

The current research selects the sample from the population by adopting a non-probability purposive method. The sample of the current research consists of eight Islamic banks and eight conventional banks and their customers and employees. To identify the level of customer satisfaction, this research set the sample size as 200 respondents for each type of conventional banks and Islamic banks which is close to the ideal observations defined by the literature (For instance, Hair et al., 2010; McDaniel and Gates, 1993; Nunnally, 1978). The respondents are considered to have at least one bank product and become a customer of the sampled banks for at least six months. Similarly, to identify the level of employee satisfaction, this research selects 160 respondents from each type of banking sector, conventional and Islamic, respectively. The respondents are selected randomly who have worked for at least six months for the sampled banks.

The data analysis consists of descriptive statistics and the inferential statistics using the statistical package for social sciences (SPSS). The descriptive statistics are used to organise and summarise the raw data to identify the performance in terms of customer satisfaction, employee satisfaction, internal business process, and the financial performance. The adopted techniques in descriptive statistics is a measure of central tendency that includes mean, mode, median, and standard deviation. Once the data are organised, an inferential statistic (Mann-Whitney U test) has been adopted to compare the data between Islamic banks and conventional banks.

## 1.7 Thesis Structure



Chapter One introduces the thesis. It includes the research background, significance of the study, the research gap, research aim and objectives, research question, research methodology, and the thesis structure.

Chapter Two reviews the literature concerning the theoretical framework of performance measurement. It includes the concept of performance, performance measurement, the evolution of the performance measurement, models and framework of performance measurement, and the key performance measurements.

Chapter Three reviews the literature in line with the perspectives of performance. It comprises the literature on customer satisfaction, employee satisfaction, internal business process, and financial performance. The literature on customer satisfaction includes customer satisfaction theories, customer satisfaction measurement techniques and framework. The literature on employee satisfaction concentrates on the Influencing factors of Employee satisfaction. The literature on internal business process focuses on the internal business process measures in banking sectors. Lastly, the literature on financial performance includes the financial perspectives of performance measurement and financial performance measurement techniques.

Chapter Four reviews the literature on Islamic finance. It includes an overview of banking history, the distinct characteristics of Islamic finance, and the financing modes of Islamic finance. This chapter also includes a discussion on how religiosity impacts the four aspects of performance which enables the researcher to develop the hypotheses for the current research.

Chapter Five outlines the methodology employed to conduct the current research. It starts with the discussion on philosophical position of the researcher. Afterwards, it outlines the approaches, design, and strategy of the research. It also explains the research methods that include data collection, data analysis, sampling, and validity and reliability. Additionally, this chapter presents the limitations of the current research.

Chapter Six empirically measures the performance of Islamic banks and conventional banks based on the data collected from primary and secondary sources. These data are then statistically summarised and organised in this chapter by deploying a descriptive statistic in order to present them in a meaningful way for the comparison in the following chapter.

Chapter Seven compares the four aspects of performance which include customer satisfaction, employee satisfaction, internal business process, and financial performance between Islamic banks and conventional banks. This chapter also includes an inferential statistic in order to compare the performance between Islamic banks and conventional banks. As part of inferential statistics and based on the normality test, a non-parametric test (the Mann-Whitney U Test) has been employed.

Chapter Eight concludes the thesis by summarising the major research findings. This chapter also recommends further research in the area, highlights the implications and limitations of the study, and provides recommendations for Islamic banks and conventional banks in Bangladesh.

# CHAPTER TWO

# THEORETICAL FRAMEWORK OF PERFORMANCE MEASUREMENT

# CHAPTER TWO

# THEORETICAL FRAMEWORK OF PERFORMANCE MEASUREMENT

## 2.1 Introduction

The performance measurement models and frameworks have been developed over a long period before 1970 to adjust the changing nature of the business environment. Traditionally, performance was measured based on management accounting. As a result, most of the measures focused on financial data, for example, ROI, ROE, and ROCE (Simons, 2000). The changes in the global economy and intense competition in the marketplace lead the business to focus on strategy rather than productivity (Ghalayini and Noble,1996; Kaplan, 2009; EFQM,2013). Therefore, a number of performance measurement models and frameworks emerged that criticise the use of financial measures in performance measurement and urge business to construct performance measurement system that is balanced and derived from the strategy.

However, many organisations still use financial measures to measure their performance (Tangen, 2004; Chao et al., 2017). As the traditional way of measuring performance has limitations, the balanced and dynamic performance measurement systems have emerged (Neely, 1999). The term ‘balanced’ refers to the use of different perspectives and measures that give a holistic view of an organisation (Kaplan and Norton, 1996). The word ‘dynamic’ refers to the need for establishing a system that continuously monitors the external and internal context, and reviews the priorities and objectives (Bititci et al., 2000).

This chapter introduces the concept of performance in section 2.2. Section 2.3 discusses the concept of performance measurement. Section 2.4 attempts to highlight how the performance measurement techniques and frameworks have been evolved over the period. Section 2.5 briefly outlines the existing studies of performance measurement. Section 2.6 critically reviews the models and frameworks of performance measurement. The key performance indicators have been shown in section 2.7. Lastly, section 2.8 concludes the chapter.

## 2.2 Concept of Performance

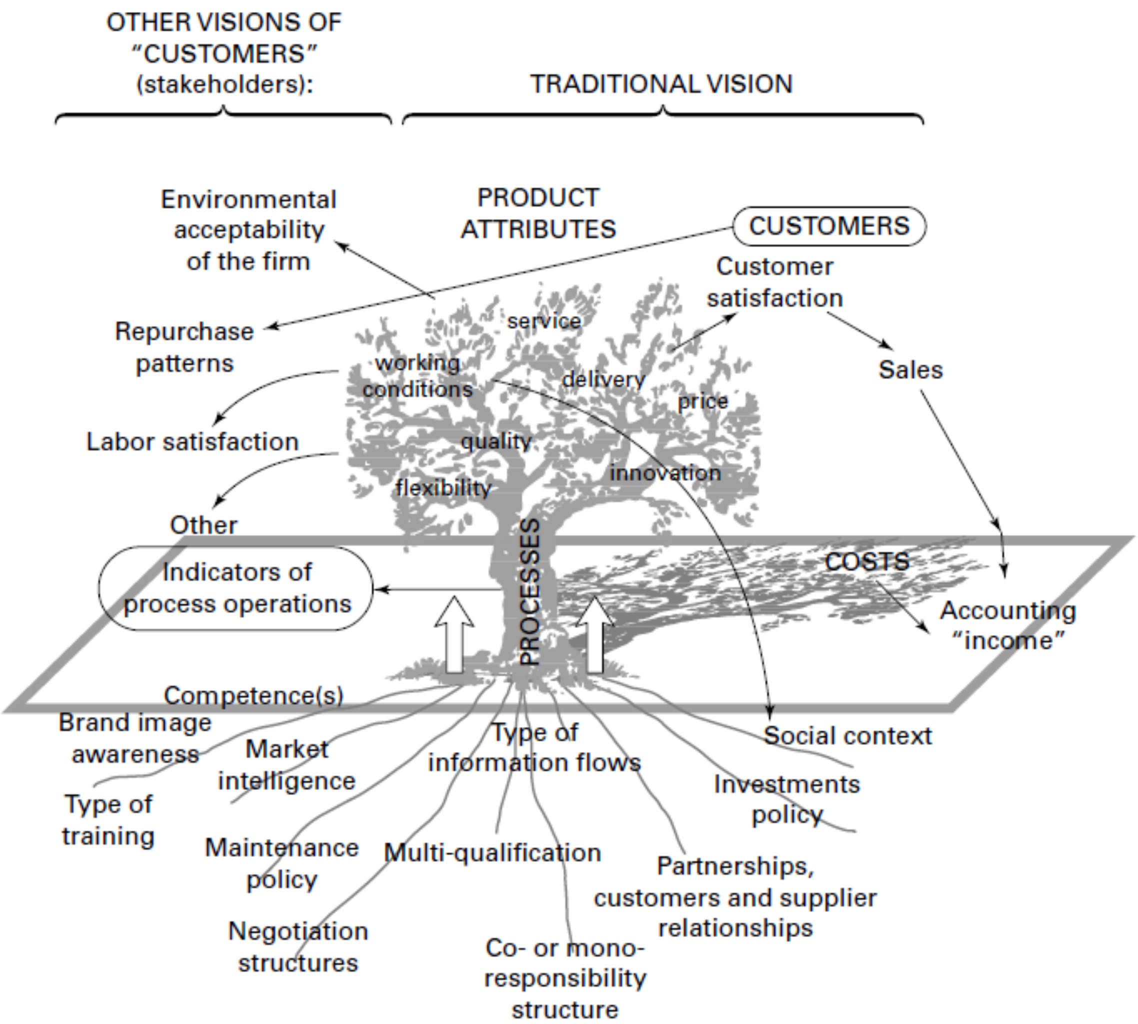
The word ‘performance’ is used in many ways by academics and practitioners. In management practice, performance is termed as performance management, measurement, and appraisal. In the academic world, many authors emphasised on performance as the main issue of their articles or books, but its precise meaning is not clearly defined (Lebas and Euske, 2002 cited in Neely, 2002, p 67).

Performance has a diversity of meaning, but it is mainly associated with effectiveness and efficiency (Corvellec, 1994; Neely et al., 1995). The Oxford English dictionary has shown the meaning of performance as follows:

i. An act of presenting a play, concert, or other forms of entertainment.
ii. The action or process of doing a task or function.
iii. An operation or a task that is seen in terms of how successfully it is done.

Baird (1986) views performance as an action (Gaining performance) or an event (a result of an action). In other words, performance is a sum of all process that leads a manager to take suitable actions in the present to make the performing organisation effective and efficient in the future. However, Lebas and Euske (2002, cited in Neely, 2002, p 67) termed performance as a ‘suitcase word’ where everyone put the concepts that suit best. Although the term ‘performance’ has diversity of meaning, Lebas and Euske (2002 cited in Neely, 2002, p. 69), claim that organisations goes through mainly three steps in creating a performance which include the foundation, process, and outcomes that are portrayed into a tree called performance tree shown in Figure 2.1.

Figure 2.1: Performance Tree




Source: Lebas and Euske, 2002 cited in Neely, 2002, p 69

The outcomes of an organisation have been divided into two areas which are the traditional visions and the other visions. The accounting income that has been shown on the right side of the tree as a traditional vision. Conversely, the other vision includes issues such as the environmental acceptability of a firm, social welfare, and labour satisfaction which are valued by the stakeholders have been shown on the left side of the tree. The outcomes or results are the consequences of the attributes of products or services (constitute as a fruit of the tree). An example of product attributes includes price, quality, service, innovation, delivery, and working condition.

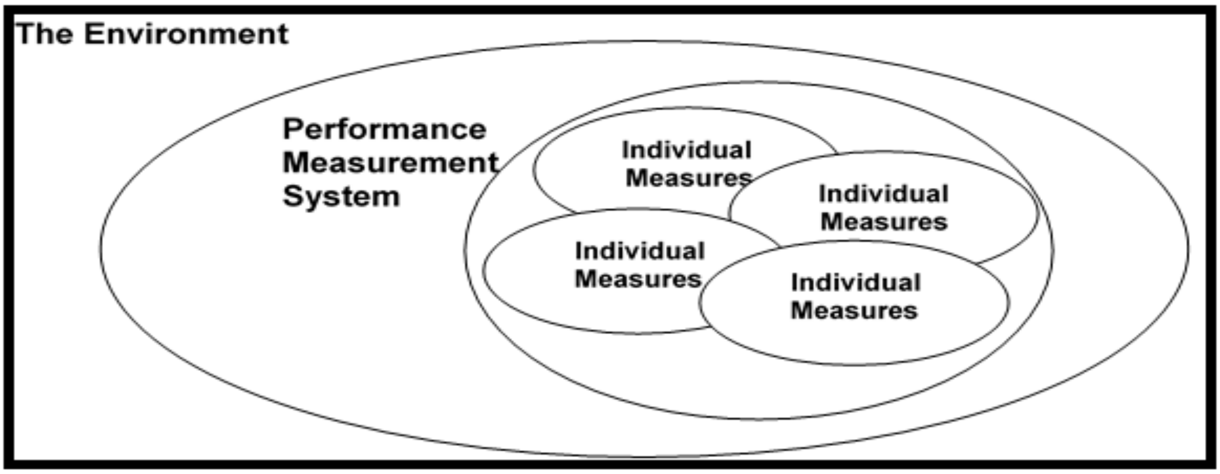
The process stage ensures the quality of attributes of the products or services. This stage is considered as a trunk of the performance tree. The trunk of a tree processes and supplies the nutrients from the soil (the foundation stage in the case of performance tree) to its branches to produce the fruits. The process stage needs continuous monitoring in order to confirm that it provides, what it wants to deliver within the strategies of an organisation. The quality of the process depends on the richness of the sap that comes from the nutrients in the soil. In the case of the performance tree, the nutrients are competence, market intelligence, partnerships with both customers and suppliers, policies, and organisational structure. These nutrients in the soil are considered as the foundation stage of performance.

So, the word 'performance' means not only an action or an outcome but also the whole process in which the action is performed or the outcome is generated. It means performance has several dimensions which are corelated towards the generation of an outcome.

### 2.3 Performance Measurement

In sports, a manager needs to know the running scores to decide whether any changes are necessary to be made for the team to win the game. Similarly, a manager in the profit and non-profit organisation needs the running data to know whether any strategic amendments are required in order to achieve the goal. The running data in a business are business outcomes such as profit , market share, customer satisfaction, and employee satisfaction. Measuring the effectiveness and efficiency of business outcomes is a process of performance measurement (Hatry, 2006). Therefore, performance measurement is a process of quantifying the efficiency and effectiveness of organisations' activities or can be defined as a metric used to quantify the effectiveness and efficiency of an action (Neely et al., 1995). The terms 'effectiveness' means the ability of an organisation to meet the requirements of customers or stakeholders. The efficiency denotes how economically a business utilises its resources to make its customers or stakeholder's happy. Besides, as per Drucker (1974), performance measurement is interrelated with the efficiency and effectiveness where efficiency refers to the ability of a company to do things right, and effectiveness means doing the right things. However, McKinsey and Company (2008) claim performance measurement as a measure of both social impact and organisational performance. Neely et al. ( 1995) views performance measurement is a diverse topic, hence, the design of performance measurement can be split into three levels (Figure 2.2) that are individual performance measurement, performance measurement for the whole entity, and performance measurement of the internal and external environment of an organisations.

Figure 2.2: Performance measurement




Source: Neely et al. (1995)

Individual performance measure considers measuring a number of individual measures such as quality, time, cost, and flexibility. Performance measurement of the whole entity starts by identifying various dimensions of organisational performance to measure the entire performance of the organisation. The performance measurement concerning the environment includes the internal and external environment of the organisation. The internal environment deals with the various measures within the organisation and external environment deals with the measures that are external to organisations such as customers and competitors.

Therefore, a performance measurement should not limited within the measurement of effectiveness and efficiency of an action. Rather it should consider the two fundamental areas of performance of an organisation or an action. The two areas are internal performance measurement and external performance measurement. A performance measurement enables the intended parties to provide a holistic picture of performance when it includes the internal and external aspects of performance.

## 2.4 Evolution of Performance Measurement Techniques

Performance measurement techniques have been evolved over the periods. Traditionally performance was measured based on financial measures. As financial measures provide very narrow information about the performance of an organisation, the multi-dimensional performance measurement techniques have emerged which include both financial and non-financial measures.

A comparison between the traditional and the emerging multi-dimensional performance measurement systems have been shown in Table 2.1.

**Table 2.1: Comparison between Traditional and Emerging Performance Measurement System**

| Traditional Performance Measurement System | Emerging Performance Measurement System |
|---|---|
| Based on management accounting | Based on the company's strategy |
| Based on cost and efficiency | Based on the values |
| Profit-focused | Customer focused |
| Concentrate on past performance | Concentrate on past and future performance |
| Prevalence on individual performance | Prevalence on team performance |
| Short time oriented | Longtime oriented |
| Aims at evaluating | Aims at evaluating and involving |
| Intended for high and middle management | Intended for all employees |
| Confusing and misleading | Accurate |
| Use a fixed format | No fixed format, depends on needs |
| Do not change over time and location | Change over time and location |
| Concern about performance monitoring | Concern about performance monitoring and improvement |
| Do not help to achieve continuous improvement | Help to achieve continuous improvement |

Source: Ghalayini and Noble, 1996; De Toni and Tonchia 2001

## 2.5 Existing Studies of Banks’ Performance Measurement

A number of studies have been conducted to measure banks’ performance comparatively between Islamic banks and conventional. For example, Erol et al. (2014) compared the performance of sixteen conventional and four Islamic banks in Turkey over the period of 2001-2009 using financial ratios based on Capital Adequacy, Assets, Management capability, Earning and Liquidity (CAMEL) approach. Similarly, Khan et al. (2017) measure the performance of Islamic banks compared to conventional banks in Pakistan for the period of 2007-20014 based on financial ratios. Yang (2009) and Norma et al. (2010) measures banks’ performance using data envelopment analysis (DEA) in Canada and Malaysia respectively. Rahman (2011) compared the performance of Islamic banks and conventional banks in Bangladesh using Stochastic frontier analysis (SFA) for the period 2003-2008. Wasiuzzaman and Umadevi (2013) analysed the performance of nine conventional and five Islamic banks in Malaysia for the period of 2005-2009 by using financial ratios. Financial ratios have also been used for banks’ performance measurement by the studies of Siraj and Pillai (2012) and Al-Hares et al. (2013) in GCC region, Ika and Abdullah (2011) in Indonesia, Fayed (2013) in Egypt, Almazari (2012) in Jordan, Jnr et al. (2014) in Ghana, Ben and Rachdi (2014) in MENA, Thim et al. (2014) in Malaysia, and Noman et al. (2015) in Bangladesh.

Few studies have also been carried out to measure the bank performance based on BSC such as Ibrahim (2015) in Nigeria, Amiri (2012) in Iran. Wu et al. (2009) in Taiwan, Al-Najjar (2012) In Iraq. These studies have been conducted on individual bank, it means not comparatively between Islamic banks and conventional banks.

The studies mentioned above suggest that banks’ performance is measured solely based on the financial aspect of performance.  However, the emerging performance measurement models and frameworks discussed in section 2.6 (For example, BSC, SPC, SMART, CPMS, IPMS, CBS, IPMF, DPMS, and PP) highlights the importance of nonfinancial information along with financial information in performance measurement. As the existing comparative studies of banks’ performance do not include the non-financial aspect of performance, this indicates the gap in the literature of banks’ performance measurement which will be bridged by the current study that measures banks’ performance including financial and non-financial aspects of performance.

**2.6 Models and Frameworks Performance Measurement**

In the last 20 years, attention to performance measurement and management (PMM) has remarkably increased (Taticchi, 2010). The existence of management cannot be imagined without a performance measurement (Lebas,1995). Business organisations have realised that to compete in a continuously changing environment, performance needs to be measured and monitored. Hence, Sharma et al. (2005) claim performance measurement as a critical element to improving organisational performance.

A chronological review of the literature reveals various models and frameworks of performance measurement and management for small to large companies. The purpose of the performance measurement models or frameworks is to guide and support management in measuring organisational performance. These models and frameworks support to critically analyse the performance of an organisation and improve operational efficiency. The majority of the models and frameworks have gone through empirical work, and few of them are in an academic domain. The models and frameworks shown in Table 2.2 can be classified into three categories which are integrated frameworks, a framework to meet particular issues, and the other relevant models and frameworks for performance measurement and management (Taticchi, 2010).

**Table 2.2: Performance Measurement Models and Framework**

| Model/Frameworks | References | Period |
|---|---|---|
| ROI,ROE, ROCE | Simons (2000) | Before 1970 |
| Data Envelopment Analysis (DEA) | Charnes, Cooper and Rhodes (1978) | 1978 |
| The Economic Value Added Model (EVA) | Stern et al., 1995 | 1980 |
| The Strategic Measurement Analysis and Reporting Technique (SMART) | Cross and Lynch (1988) | 1988 |
| The Supportive Performance Measures (SPA) | Keegan et al. (1989) | 1989 |
| Business Excellence Model (BEM) | EFQM excellence model (2013) | 1990 |
| The Performance Measurement Questionnaire (PMQ) | Dixon et al. (1990) | 1990 |
| The Results and Determinants Framework (RDF) | Fitzgerald et al. (1991) | 1991 |
| The Balanced Scorecard (BSC) | Kaplan and Norton (1992) | 1992 |
| The Service-Profit Chain (SPC) | Heskett and Schlesinger (1994) | 1994 |
| The Consistent Performance Measurement System (CPMS) | Flapper et al. (1996) | 1996 |
| The Integrated Performance Measurement System (IPMS) | Bititci et al. (1997) | 1997 |
| The Comparative Business Scorecard (CBS) | Kanji (1998) | 1998 |
| The Integrated Performance Measurement Framework (IPMF) | Medori and Steeple (2000) | 1998 |
| The Dynamic Performance Measurement System (DPMS) | Bititci et al. (2000) | 2000 |
| The Performance Prism (PP) | Neely et al. (2001) | 2001 |

Source: Author's own

A brief discussion of the performance measurement models and frameworks shown in Table 2.2 are as follows:

**i. Data Envelopment Analysis**

Data envelopment analysis (DEA) is a mathematical linear programming approach to performance measurement developed by Chames et al. (1978). The DEA uses the concept of benchmarking between the decision-making units (DMUs) with the best practice unit (frontier) based on efficiency. A DMU is an entity that consumes resources (inputs) to produce outputs. A bank branch that consumes resources to produce outputs can be considered as a DMU. The efficiency of the DMU is measured by the ratios of total outputs over total inputs.

In DEA, every unit or branch is considered based on what resources it used and what output is produced. It then identifies the most efficient and inefficient units (branch, individual or department). This is attained by comparing the resources a unit consumed and the output a unit produced (Hababou, 2000). The DEA permits the simultaneous analysis of multiple outputs and multiple inputs. It does not require an apparent prior determination of a production function. It also does not need the information on price (Sun, 2011). The DEA identifies the inefficient DMU by comparing with the frontier. It helps the inefficient DMU to emulate the best practice in order to be efficient.

In the output-oriented model, Charnes et al. (1978) identified a DMU as inefficient if it is possible to produce an extra output without additional input. Similarly, in the input-oriented model, a DMU is not efficient if it is possible to deduce any inputs without reducing any outputs.

***Strengths and Weaknesses of DEA***

The DEA is a comprehensive performance measurement tool. It is mostly suitable for financial institutions because of a multitude of subjective factors that affect the productivity of a service business and the service quality. It assigns a single score for a single DMU and focuses on the inefficient unit so that is can improve the efficiency following the frontier unit. There are also limitations in the DEA. As it is a non-parametric technique, statistical hypothesises are difficult to test. When DMU performs multiple activities, it is difficult to aggregate the efficiency of multiple outputs. Similarly, it faces a problem in mixing the multi-dimensional performances. For example, a bank branch is efficient in one activity and inefficient in another. The DEA does not consider the intangibles in the DMU such as service quality in a bank which may lead a DMU from inefficient to efficient in the future (Sun, 2011).

**ii. Economic Value-Added Model**

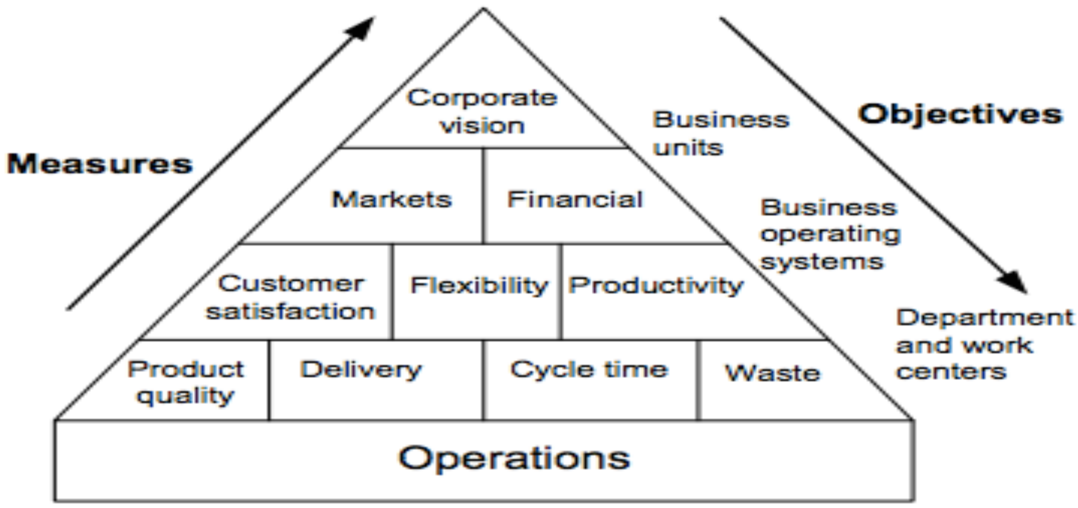
Economic value added (EVA) is a financial metric to measure the financial performance of an organisation developed by the Stern Stewart and Co. in 1980. The EVA measures the performance of a company based on residual income. Residual income is calculated by deducting the cost of capital from the operating profit after tax. The cost of capital comes from total equity and debt capital of the organisation multiplied by the weighted average cost of capital (WACC). Therefore, the EVA calculation includes profit after tax less cost of capital. Many academics find no difference between the residual income and the EVA because both calculations focus on what value an organisation generates after deducting it’s all costs from the operating profit (Pal and Kumar, 2011).

The EVA is claimed to be different from other metrics because it considers the organisation profit and cost of capital. Therefore, it ensures that the entrepreneurs do not under-use the available capital that would have earned an extra profit for the enterprise. As the EVA deducts both debt and equity cost from the operating profit after tax, it reveals the real economic profit as compared to accounting profit where only the cost of debt is considered. If the enterprise is purely based on debt capital, accounting profit discloses the real profit information, but this type of finance is highly expensive and risky. As this metric uses the residual income approach, the performance of a firm is not comparable with the divisions if the sizes of the enterprise are different (Nthoesane, 2012).

#### iii. The Strategic Measurement Analysis and Reporting Technique

Strategic measurement analysis and reporting technique (**SMART**) focus on external and internal factors of the organisation in measuring performance. It was developed in the Wang laboratory by Cross and Lynch in 1988. The SMART links the objective of the organisation with the operations. The SMART integrates the financial and non-financial information into measuring. It measures the performance considering the whole business activities and future requirements. The structural frameworks of the SMART have been shown on a four-level pyramid (Figure 2.3) called the performance pyramid.

Figure 2.3: Performance Pyramid




Source: Cross and Lynch, 1988

The corporate vision is at the top level of the pyramid that is articulated by the top management. Vision helps to construct the strategic plan from where the management assigns and supports the portfolio role for each business unit. The objectives for each business units are on the second level. These objectives are defined in terms of market and financial measures of the pyramid.

The strategies are outlined to meet these objectives. Business operating system (BOS) for each unit is at the third level. BOS supports the business strategy that can be defined in terms of customer satisfaction, flexibility, and productivity. The BOS comprises of all internal activities, policies, and procedures of the business that implements a specific business strategy. There is a close relationship between the drivers of BOS and the top tier measures market and financial. For example, the measure of the market is supported by customer satisfaction and flexibility. Customer satisfaction in the BOS means- how customer expectations are managed in terms of quality and delivery. Flexibility addresses the responsiveness of the BOS where productivity refers to the efficient management of the resources of a business unit.

Product quality, delivery, cycle time and waste have been shown at the fourth level of the pyramid which refers to specific criteria of the operations at the department level. These criteria help to achieve the objectives of an operation or department. Specific measures for these criteria need to be identified for each department. The objective of any department is to increase quality and delivery and decrease cycle time and waste.

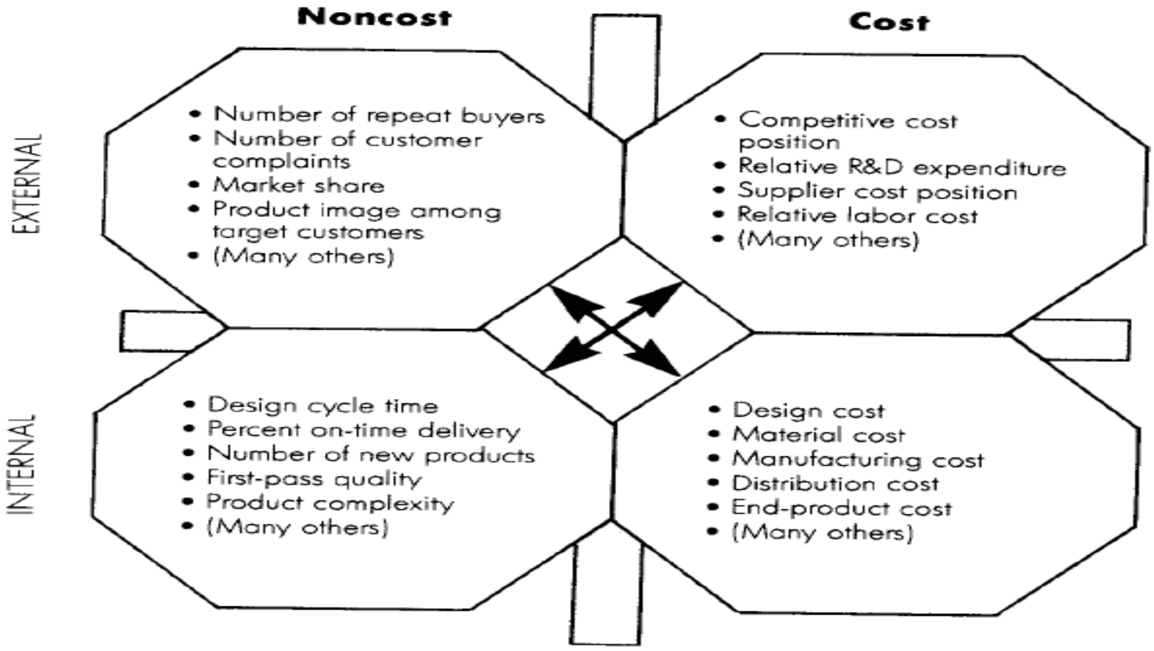
At the bottom level of the pyramid is operations. A robust result from an operation can be achieved by increasing the quality and delivery, by decreasing the cycle time and waste. A good effort at the department level makes sure the pleasant result at the top level. Therefore, three criteria of operation support the key elements of BOS which are customer satisfaction, flexibility, and productivity. BOS supports in market penetration and financial outcome that meets the vision of a corporation (Cross and Lynch, 1988). However, the weakness has also been identified in SMART by Striteska and Spickova (2012) that the measurement matrix does not give a mechanism for specifying the key performance indicators (KPIs).

**iv. The Supportive Performance Measures**

The supportive performance measures (SPM) is a framework for performance measurement developed by Keegan et al. (1989). In performance measurement, the SMP focuses on multi-dimensions which are cost or non-cost, internal, and external shown in Figure 2.4.

In measuring the performance, the relationship between various cost and their behaviour must be understood. As per the SPM, a most important basis in performance measurement is the cost as it is closely related to the profit. Some activities in the organisation are appeared to have no impact on the cost directly, but a change in those activities impact the profit. For example, by eliminating manufacturing cycle time, the level of inventory can be minimised. Reduction in inventory reduces the working capital. Reduction in working capital decreases the interest cost which helps to improve the profit.

Figure 2.4: Performance Measurement Matrix




Source: Keegan et. at.,1989

Therefore, performance measurement should focus on the cost driver. It is not important to think whether these cost-drivers are related to the profit, as long as these are connected to the strategy needs to be considered (Keegan et. al.,1989). The SPM however, focus on multi-dimensions in performance measure but not provided any link between the dimensions which are deemed to a weakness of the model (Neely et. al., 2000).

### v. EFQM Excellence Model

European foundation for quality management (EFQM) was formed by fourteen European companies in 1988 authorised by the European Commission. The EFQM introduced the European Quality Award in 1992. These awards are given to the companies that show excellence in management and maintain a continuous development process (Shergold and Reed, 1996). The EFQM gives European quality award based on certain criteria that have been shown in the EFQM excellence model.

The EFQM excellence model is a framework to manage and understand the complexity that a business organisation face globally. It is a pragmatic model that allows business to understand the cause and effect relationship between what a business does and the results it achieves. The EFQM model consists of three interrelated components which are:

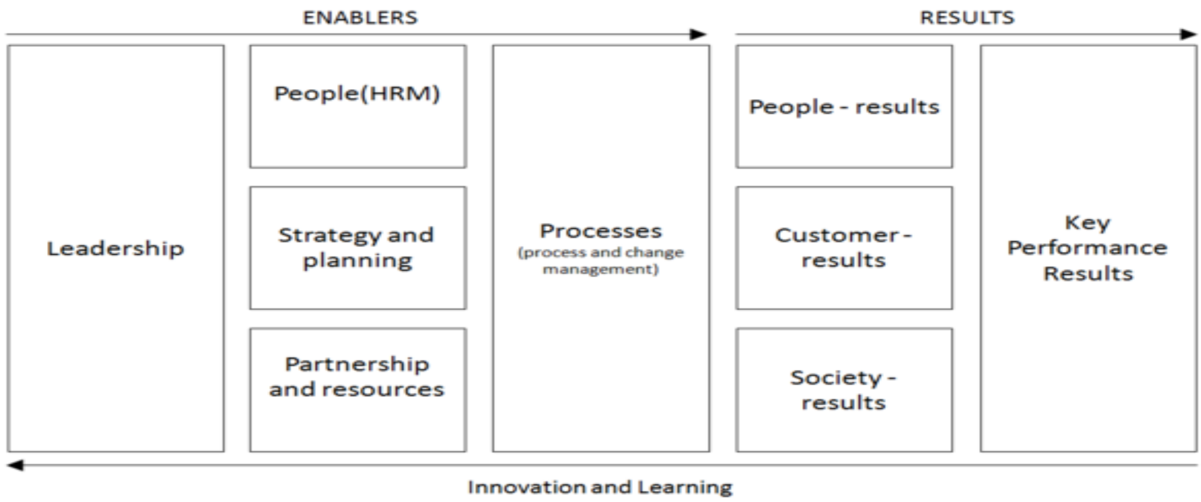
a. Fundamental concepts of excellence,
b. The Criteria, and
c. The Radar.

Fundamental concepts of excellence describe the underlying factors that form the basis to achieve sustainable excellence in any business. There are eight vital concepts in this component which are adding values for customers, creating a sustainable future, developing organisational capacity, harnessing creativity and innovation, leading with vision, managing with agility, succeeding through the talent of people, and sustaining the outstanding result.

An organisation achieves excellence by adding values to customer continuously. The values can be added for customers through anticipating, understanding, and satisfying needs, expectations, and opportunities. The excellent organisations take care of the environment where it operates. The operations of these organisations do not harm the community rather improve the social condition and contribute to economic development. Organisations also achieve excellence by boosting their abilities through an efficient, flexible, and responsive management within and outside the organisational frontiers. In addition, the nature of creativity and innovation of an organisation attracts the stakeholder. Moreover, the leaders in an excellent organisation lead the organisation with vision, inspiration, and Integrity. They make things happened by shaping the future and lead the organisation with ethics and integrity being a role model for others. Likewise, they manage the organisation with an agility that enables them to identify the opportunities and threats in the market and respond to these threats and opportunities effectively and efficiently. Furthermore, excellent organisations give importance to their people by making a culture of empowerment where personal and organisational goals are achieved. This type of organisation fulfils the short term and long-term needs of the stakeholders by achieving sustainable and outstanding results.

The second component of the EFQM excellence model is the criteria. The criteria for achieving excellence in business operations depends on what a business does that are considered as enablers (Figure 2.5). The enablers bring the result of a business it expects.

Figure 2.5: EFQM Excellence Criteria




Source: EFQM excellent model (2013)

Enablers comprise five criterions which are leadership, people, strategy, and partnership and resources. These are considered as inputs of any business. The performance of a business depends on the effective and efficient use of these inputs.

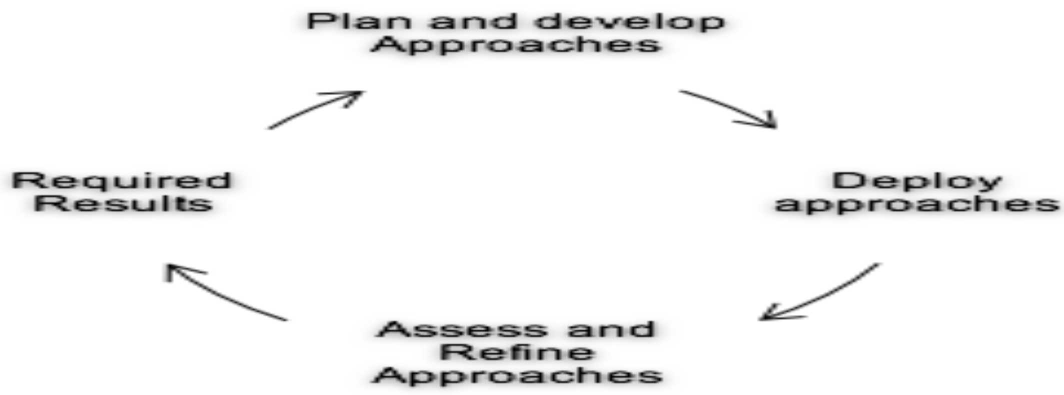
To achieve a desirable result, an organisation needs to have a robust leadership. An excellent leader leads an organisation in such a way that makes the job done by shaping the future. Excellent leaders have the qualities of anticipation, inspiration, trust, ethics, flexibility, and appropriate use of time. Outstanding leadership ensures the continued success of the business and become a role model for others. The exceptional leader also contracts the business strategies by focusing the stakeholder needs that lead the business to be an excellent organisation. The mission, vision, and objective are developed and deployed to fulfil the expectations of customers, suppliers, employees, and the environment.

People are one of the most essential elements of every business success. The excellent organisations nourish their people and create a culture that enables to achieve personal and organisational goals mutually. These organisations train people to suit the changes, motivate and reward them for their brilliant activities. They continuously communicate with the people and make sure the people use their knowledge and skills for the success of the organisation. Moreover, an excellent organisation maintains a good partnership with external parties. The external parties are suppliers, local communities, and pressure group. It also plans and manages internal resources effectively and efficiently to fulfil the strategy. The excellent organisation increases the value of the stakeholder by designing and managing an efficient and effective internal process.

On the other hand, the result consists of four outcomes that have been shown on the right side of the model. These results are based on customer, people, society, and business. According to the model, organisations are considered as excellent when they meet or exceed the expectations of customers, employees, society and the shareholders (Calvo-Mora et al., 2015; EFQM,2013).

The excellence model adopts an approach that is called radar logic (Figure 2.6). The Radar Logic is an assessment tool that provides managers with a structured approach to questioning the organisational performance. Radar Logic continuously circles and detects the objects. It helps managers to think about business activities like a Radar. In Radar Logic, managers first define the result or objectives that will be achieved within the organisation. Next managers construct and deploy necessary approaches to deliver the required results. Then managers assess the implemented approaches and improve or refine where necessary.

Figure 2.6: The Radar Logic




Source: EFQM excellent model (2013).

**vi. Performance Measurement Questionnaire**

The Performance Measurement Questionnaire (PMQ) was developed by Dixon et al. (1990) as a performance measurement tool for the managers. The PMQ aims to identify the areas in which organisations need improvement and to determine whether the existing performance measures support the improvements. The PMQ is an organised questionnaire in relation to the firm's aims and objectives. It measures the consistency between the organisation's operation and the strategy. The PMQ contains four sections. The first section includes general information on the respondents and classifies them based on their information. The second part of the PMQ assesses the company's competitive priorities and the performance management system. This section focuses on the areas of the organisation that needs improvement, and it is levelled as 'Improvement areas. It is carried out by asking questions to senior management, middle management, and front-line personnel. The respondents are asked to assign a number to each improvement area. The third section of the questionnaire pays attention to performance measurement. The final section identifies the best evaluate performance measures of the organisation performance. It is done by asking questions to the respondents within the organisation. Once the questionnaire collects the data, it is analysed in four ways which are as follows:

1. Alignment analysis: It analyses how an organisation operates and measure its operation according to the strategy.

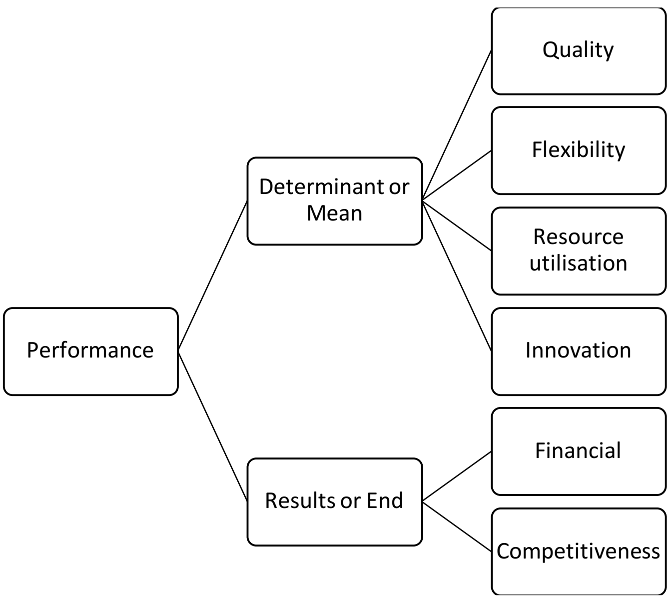
2. Congruence analysis: It provides an understanding of how effective the performance measurement system is with the organisation's strategy and actions.
3. Consensus analysis: It demonstrates the consequences of communication and is done by grouping the data into management level or functional group.

4. Confusion analysis: This analysis aims to determine the extent of consensus that means standard deviation concerning each improvement area and performance measure.

**vii. Results and Determinants Matrix**

Fitzgerald et al., (1991) synthesised performance measurement into six generic dimensions (Figure 2.7) which are competitiveness, financial, quality, flexibility, resource utilisation, and innovation. Competitiveness and financial performance are classed as 'results' or 'end' which is an indication of the success of the strategy. The remaining four dimensions are categorised as 'means' or 'determinants' as these dimensions determine the success in competitiveness.

Figure 2.7: Dimensions of Performance Measurement




Source: Fitzgerald et al., (1991)

The company that competes by differentiating service needs to ensure that all the factors are available to meet customer requirements. Fitzgerald et al. (1991) identified twelve factors of quality service in their research. These twelve factors can be internal measures or external measures. Flexibility is a source of competitiveness which is difficult to measure directly. The measure of flexibility should focus on the factors that enable customers' satisfaction. There are three kinds of operational flexibility which are a specification, volume, and delivery speed. Like flexibility, Innovation also difficult to measure. Innovation has an enormous impact on business performance. The percentage of innovation fruitfully brought to the market needs to be recorded. Measurement of Innovation includes the performance on individual innovation and the process by which it was developed. Effective use of resource also a key to achieving success in competitiveness. The simultaneity and the heterogeneity feature of the service make the measurement of resource utilisation difficult. Resource utilisation may be measured in terms of monetary value, ratios, and number of units. The ways companies measure the performance based on six dimensions are shown in Table 2.3.

**Table 2.3: Six Dimensions of Performance Measurement**

| Dimensions | Measures |
|---|---|
| Quality of service | Responsiveness, Reliability, Cleanliness<br>Appearance, Comfort, Friendliness, Communication, Courtesy, Competence<br>Access, Availability, Security |
| Flexibility | Delivery speed flexibility, Volume flexibility, Specification Flexibility |
| Resource Utilisation | Productivity and Efficiency |
| Innovation | Performance of individual Innovation and<br>Performance of Innovation process |
| Finance | Profitability ratios, Liquidity ratios, Market share, Capital Structure. |
| Competitiveness | Market share and Sale growth |

Source: Fitzgerald et al.,1991

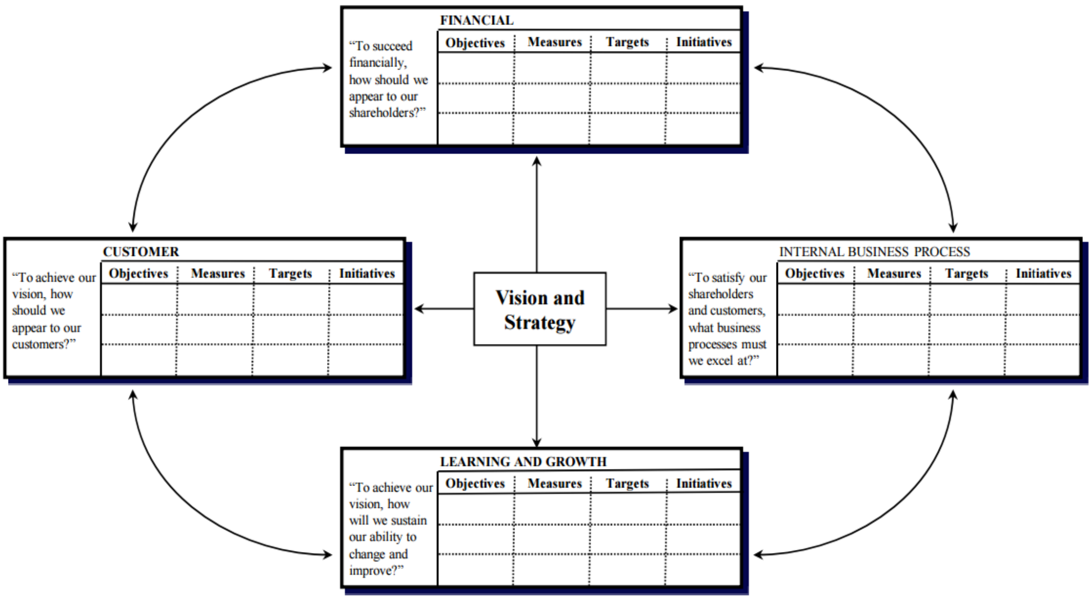
**viii. Balanced Scorecard**

Kaplan and Norton introduced Balanced Scorecard (BSC) in 1992. The impetus for the model came from the belief that only financial measures in performance measurement are not effective in the modern business world. Dependency on the financial measures mislead the users of the account though it worked well for the industrial era. The BSC provides a holistic view of the organisational performance, and the measures are derived from the strategy of a company. To measure the performance of an organisation, Kaplan and Norton (1996) suggested four perspectives (Figure 2.8) which are as follows:

a. Learning and Growth Perspective
b. Internal Business Process Perspective
c. Customer Perspective
d. Financial Perspective

Learning and Growth perspective deals with the question of can we continue to improve and create value. Effective learning and growth drive an ambitious result in the internal business process, customer satisfaction, and shareholder's return. Learning and growth is the foundation of the other three perspectives in the BSC. A company's ability in learning and growth appear to employee competencies, employee satisfaction, information system capabilities and corporate culture (Kaplan and Norton, 2001).

Figure 2.8: Four Perspectives of Balanced Scorecard

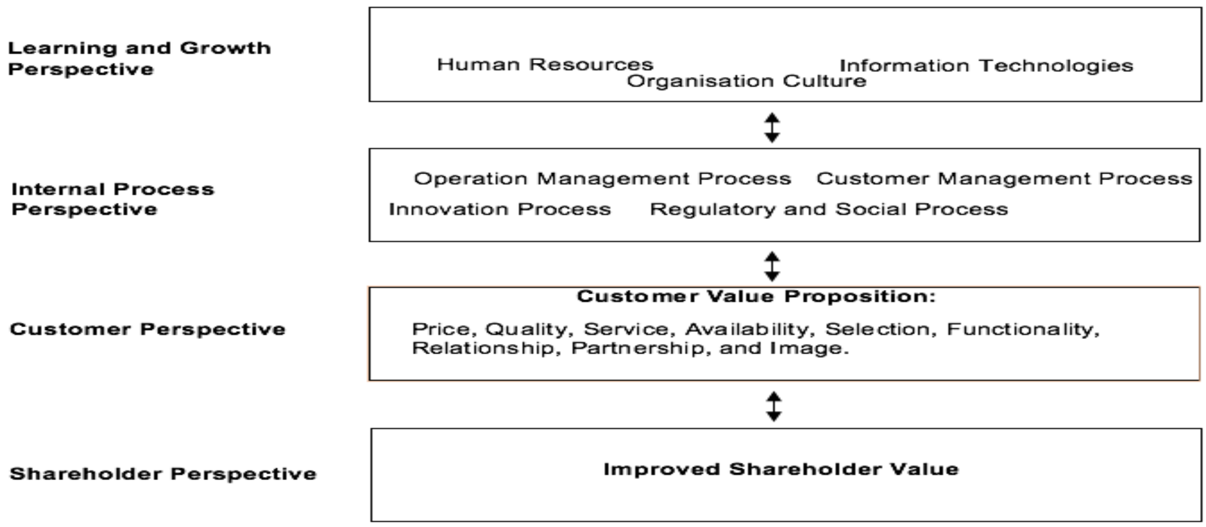



Source: Kaplan and Norton (1996); Kaplan (2009)

The internal business process starts with asking the question of what business process we must excel at to satisfy our customer and shareholder. Company's process, action, and decision drive in customer performance. Managers need to consider those critical internal functions that enable the company to meet customer needs and expectations. Internal process perspective includes factors such as cycle time, quality, productivity, product development, and employee skills.

Customer perspective deals with the question of how do customer see us. Customers' concern trends to quality, time, performance and service, and cost. In this perspective, a company should express its distinctive from its competitors in attracting, retaining, and making a relationship with its target customer. Typical measures for this perspective are customer satisfaction, customer complaints, customer acquisition, and sales from a new product.

Figure 2.9: Balanced Scorecard Cause and Effect Relationship




Source: Kaplan and Norton (2001)

The ultimate aim of an organisation is to maximise the shareholder return that can be identified from the financial perspective of the balanced scorecard. The financial perspective deals with the question of how do we look to our shareholders. A company achieves financial excellence when it performs better in the non-financial measures, the other three perspectives of the BSC. Typical financial goals are growth, profitability, and shareholder value.

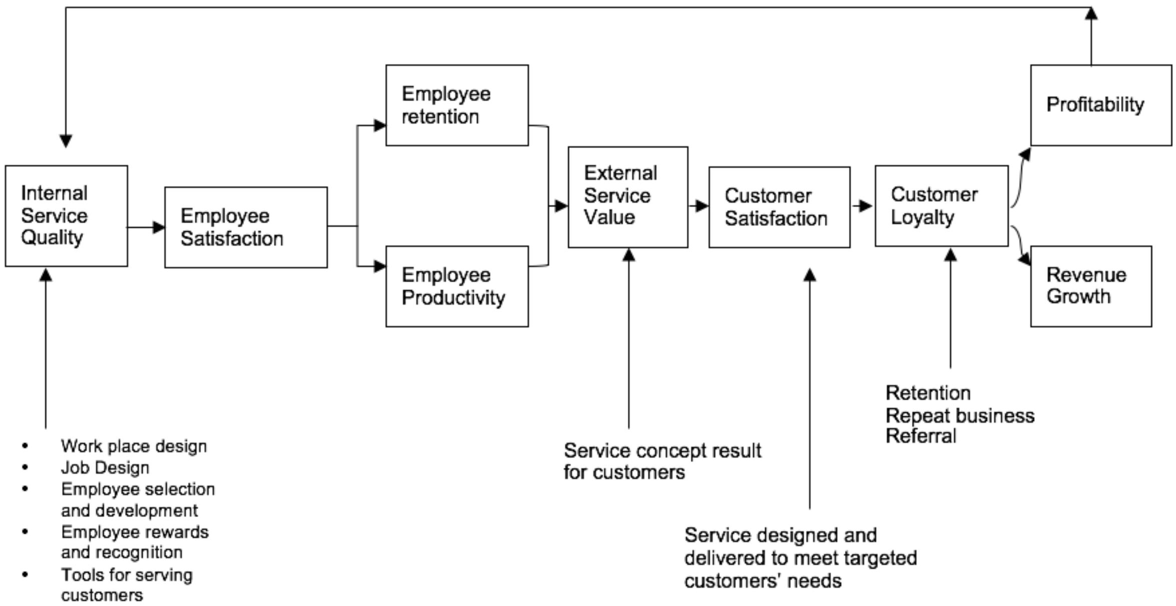
According to Kaplan and Norton (2001), there is a cause and effect relationship (Figure 2.9) among the four aspects of the Balanced Scorecard. improvement in learning and growth increase the effectiveness and efficiency of the internal business process. Effective and efficient internal business process increases customer satisfaction due to better fulfilment of customers' needs and expectations. When customers are satisfied, it increases the shareholder return by repeat purchase.

However, the causal relationship of the Balanced Scorecard has been criticised based on the notion that there is no causal relationship among the four perspectives (Norreklit, 2000). For instance, Kaplan and Norton (2001) claim that an increased customer satisfaction results in higher financial performance. Such a causal relationship is not generic, and the higher financial results are not determined by a single driver customer satisfaction. In addition, the causal relationship is verified statistically and found no cause and effect relationship among the variables, but it has been justified that the relationship is logical among the four perspectives (Malina et al., 2007). Moreover, Banchieri et al. (2011) argue that the four aspects of the balanced scorecard is a static model, and failed to consider the external context. The external context includes political, economic, environment, and social issues that could be added to the balanced scorecard model.

**The Service- Profit Chain**

The Service-Profit Chain (SPC) was introduced by Heskett et al. (1994) that aims to show a cause and effect relationship between employee satisfaction, customer satisfaction, loyalty, and productivity (Figure 2.10). The SPC claimed that profit and growth is a direct result of customer loyalty. Customer loyalty arises from customer satisfaction. Customer satisfaction heavily depends on the values of service provided to them. The values of service are formed from loyal, satisfied, and productive employees. Employee satisfaction, on the other hand, depends on the internal quality of services.

Figure 2.10: The links in Service-Profit Chain




Source: Heskett et al., 1994

Customer loyalty drives profitability and growth. The ultimate goal of a company is to maximise its profit. Service industries such as banking and software company suggest that the most important determinant to maximise the profit is customer loyalty. A 5% increase in customer loyalty can increase the profit by 25% to 85%.

Customer satisfaction drives customer loyalty. Hence, service companies are nowadays quantifying customer satisfaction by using a five-point scale from very satisfied (point 5 on the scale) to very dissatisfied (point 1 on the scale). Heskett et al. (1994) have shown that very satisfied customers are six times more likely to repurchase than those are satisfied. Repeat purchase, on the other hand, indicates the customer loyalty. Value has a significant impact on customer satisfaction because customers are now strongly value oriented. Value means the outcome (product or service) that customers get in exchange for the cost (price and other costs to customers).

Employee productivity drives value. In this regards Heskett et al. (1994) given an example from Southwest Airlines. At Southwest, eighty-six percent of employees are unionised and perform their job faster than other competitors. Southwest employees work faster because it deploys more employees and has more aircraft utilisation than its competitors. Customer perception of value is high at Southwest because of the on-time service and friendly manners of the employees.

Employee loyalty drives productivity**.** Heskett et al. (1994) claimed that the real loss of employee turnover is the loss of productivity and a decrease in customer satisfaction. He showed in an example from automobile's dealer that a monthly replacement cost of a sales representative with five to eight years of experience with less than one-year experience is as much as £36000 in sales. It is estimated that a new broker takes five years to rebuild a relationship with customers that incur a cumulative loss of at least £2.5 million in commissions.

Employee satisfaction drives loyalty. An organisation with unsatisfied employees has three times higher employee turnover rate than the organisation with satisfied employees. An organisation with a low employee turnover rate is more likely to make a good relationship with customers which leads to increased customer satisfaction. Employees become satisfied in an organisation by the quality of its internal process. Internal process quality can be identified by measuring the feelings of employees towards jobs, companies, and colleagues. It is what an employee values most on the job.

**ix. Consistent Performance Management System**

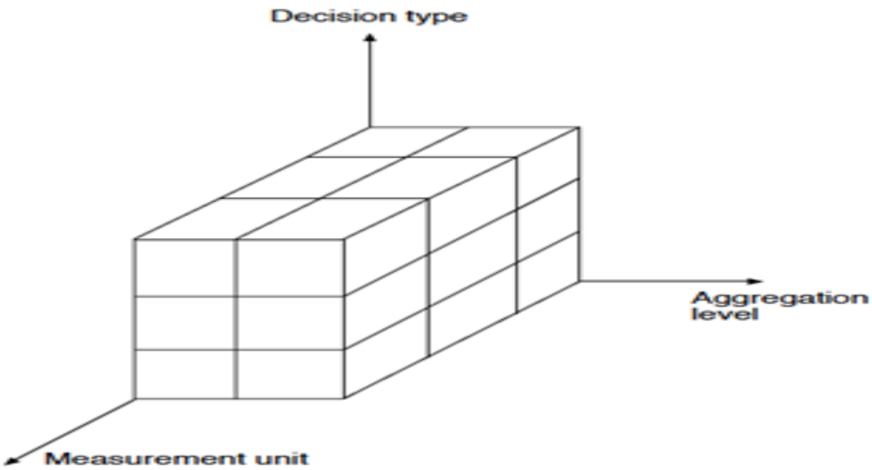
Flapper et al., (1996) outlined a systematic method for designing a consistent performance management system (CPMS). The CPMS considers all the aspects of performance measurement that is necessary for the existence of an organisation. This method provides management a quick insight into organisation performance. The method comprises three steps which are as follows.

- Identifying the performance indicators (PI)
- Defining the relations between PIs, and
- Setting the target for PIs.

Each PI has three intrinsic dimensions (Figure 2.11) namely the type of decision, the aggregation level of the decision, and the type of measurement unit.

The PI is associated with the decision types such as strategic, tactical, and operational. If a PI is related to the decision of several years, for example, the market position of an organisation, it is considered as a strategic PI. Many activities are controlled by daily basis decision and considered as operational PI. Performance arises from a timescale of week or month is classed as tactical PI. These strategic, tactical and operational PIs are closely related to each other. Strategic PI without tactical and operational PIs is very strange. The same principle applies to the case of operational PIs. Therefore, it is necessary to state which type of decision is associated with PI to establish a consistent set of PIs for an organisation.

Figure 2.11: Dimension of Performance Indicators




Source: Flapper et al., (1996)

The PI can be categorised as overall or partial. Overall PI means when the performance of the entire system is expressed. For example, the return on the whole investment is overall PI. When a performance is related to a portion of the whole is called partial PI. For example, return on investment from a sector of the organisation is considered as partial PI. So, this dimension helps to understand the horizontal and vertical relations between PIs.

All quantities can be expressed in three units such as monetary, physical, and dimensionless. Monetary PI deal with the money. When performance is expressed as the number of product or customer per unit of time are classed as physical PIs. Some

PIs are express as ratios or percentage which are termed as dimensionless PIs. The variables that are considered as PIs are depended on the activities of the organisation and the responsibility of people. For example, the production manager may use the total number of scrapped products (physical PIs) and the financial manager is interested in the monetary unit (monetary PIs).

Based on the intrinsic dimensions of the PI, Flapper et al., (1996) suggest the following classification of the PI:

1. Financial versus non-financial.

2. Global versus local. Global PIs are needed for top-level management, and the local PIs are for the lower level manager.

3. Internal versus external. Internal PIs are based on an internal function of the organisation and the external PIs are concern about the performance with the external bodies such as customers and suppliers.

4. Organizational hierarchy. The structure of the organisation impacts the vertical relation of the PIs.

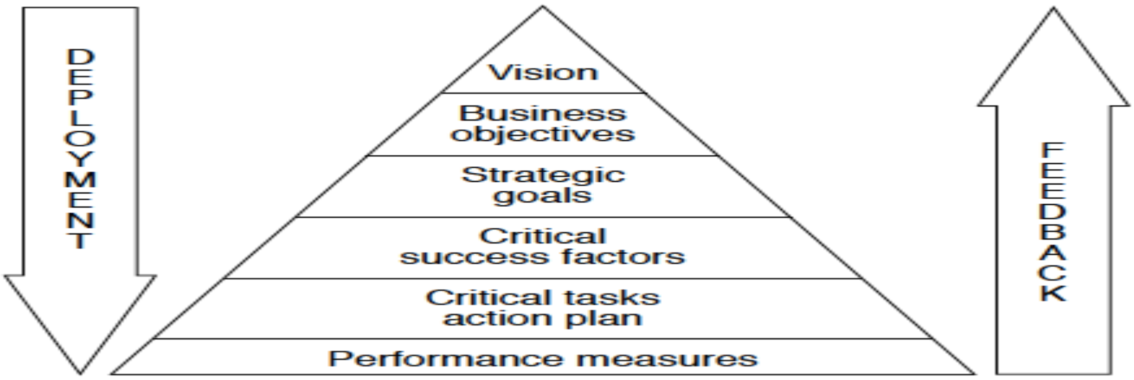
5. Area of application. Each department (sales and marketing and R&D) needs its own sets of PIs.

Moreover, various PIs can be defined based on the internal and external relationship between the PIs. Flapper et al., (1996) also mentioned that the performance measurement system not only considered by its PIs but also by the verities of values generated from different actions.

**x. Integrated Performance Measurement Systems**

The Integrated performance measurement systems (IPMS) was developed by Bititci et al. (1997). According to the IPMS, a company’s manager measures its performance through performance measurement process in line with the corporate strategy and objectives. Performance measurement process proactively provides a closed loop control system where business strategy is involved in all business processes and activities. An information system is at the center of the performance measurement process which integrates all relevant information (Figure 2.12) through the process. It enables the implementation of the business strategy and objectives and allows feedback through the process for a robust management decision. Therefore, the context integration means the implementation of the business's strategy and tactics into the measurement process and obtaining feedback to facilitate decision-making and control.

Figure 2.12: Performance Management Process with Closed Loop Deployment and Feedback.




Source: Bititci et al. (1997)

The integrated performance measurement system means a performance measurement system which deploys the business's strategy and objectives in the measurement. Under this performance measurement system, two critical factors need to be considered. These factors are the integrity of the measurement system and the deployment.

Integrity refers to the capacity of the measurement system that promotes integration between various areas of the business. To establish the integration, the measurement system follows five systems which have been described below:

*System one* refers to a production unit that produces organisation's product or service. From a performance measurement point of view, system one measures the individual unit's performance.

*System two* coordinates the operation management of a unit that is undertaken by system one.

*System three* controls system one and two by providing targets and priorities. This system is responsible for performance measurement in line with the company's strategy and objectives.

*System four* is considered as a development or improvement system which focuses on the external environment and the future. This system decides whether any changes are necessary for the lower systems. In terms of performance measurement, this system measures the performance of external activities such as the performance on a delivery process as compared to market requirement and competitors.

*System five* guides the directors of the business to construct policy, strategy, and objective that will be adopted in the future. This system analyses the performance gaps in system four and sets priority and targets for future adaptation.

Deployment refers to the implementation of the business strategy and objectives at every step of the business hierarchy that has been shown in Figure 2.12. Performance should be measured throughout the hierarchy of the organisation and deployment aims to ensure the measurement that reflects the policy, strategy, and objectives at every step of hierarchy.

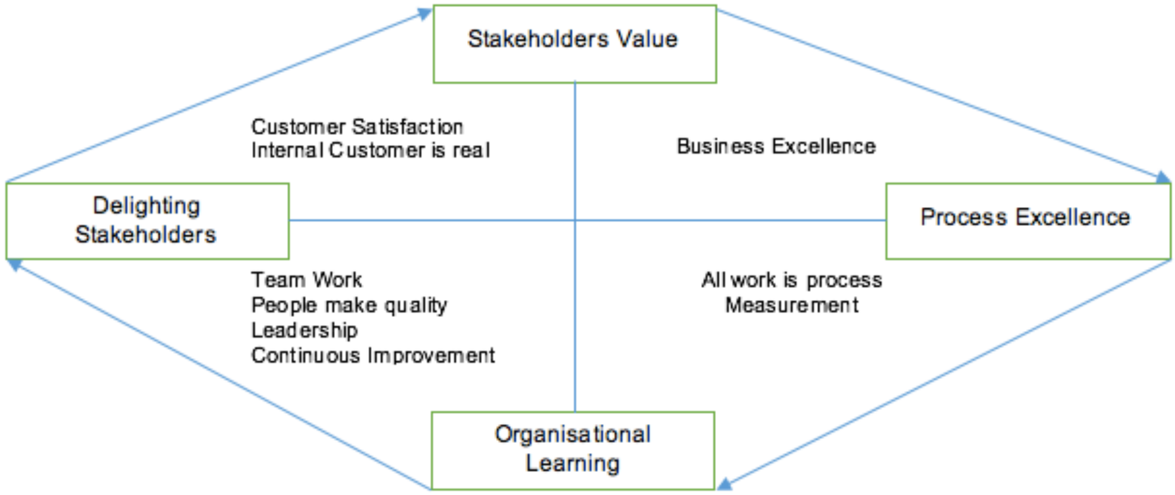
### xi. Comparative Business Scorecard

The comparative business scorecard (CBS) considers business excellence from four key areas of a business which are:

1. Shareholder value maximisation
2. Organisational learning improvement
3. Achievement of process excellence
4. Stakeholder delight

Excellence in each area should have a cause and effect relationship with the other areas to form a cycle of continuous improvement. An increase in stakeholder satisfaction increases the revenue that returns satisfaction to the investors. When the revenue is increased, it enables the organisation to invest in the process and learning. An investment in the process and learning boost up the employees' performance and internal process that consequently increase the stakeholder satisfaction leading to business excellence. Four dimensions of the business scorecard have been shown in Figure 2.13.

Figure 2.13: Business Scorecard




Source: Kanji (1998)

To achieve business excellence, it is essential to focus on all the areas of the enterprise rather than solely focusing on the financial area. The business scorecard does not recommend which performance area of the business should be focused and what measures will be used. It is unique to every business and can be developed or managed by consultation. Each of the dimension defines a number of corporate objectives and allocate a set of measurement criteria for each factor that has been shown in Table 2.4

**Table 2.4: Business Scorecard**

| Shareholders' Value | Process Excellence | Organisational Learning | Delighting Stakeholder |
|---|---|---|---|
| Business excellence (Profitability) | All work is process<br>Measurement | Leadership<br>People make quality<br>Teamwork<br>Prevention<br>Continuous improvement | Customer-satisfaction<br>Internal customers -are real |

Source: Kanji (1998)

The identification of precise performance dimensions and consideration for critical success factors help to construct a measure for better monitoring of the organisational performance. Kanji and Mours (2002) identified critical success factors based on four dimensions as follows:

1. Delighting the stakeholders that means focusing on both internal and external customer satisfaction.

2. The most important asset in the organization asset is its people which needs to be well managed by providing adequate training and encouraging for teamwork

3. Management by the fact that means taking a managerial decision based on logic and rational.

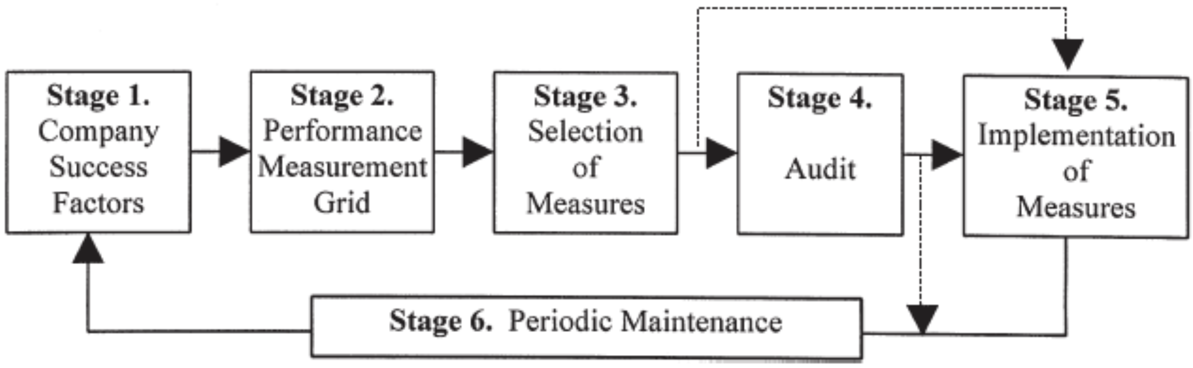
4. The continuous improvement that means always looking for new improvement opportunities and preventing complications or problems from occurring.

**xii. Integrated Performance Measurement Framework**

Medori and Steeple (2000) developed an integrated performance measurement framework (IPMF) which focuses on financial and nonfinancial performance. The

IPMF measures the performance of an organisation based on six stages shown in Figure 2.14.

Figure 2.14: Structure of Integrated Performance Measurement Framework




Source: Medori and Steeple (2000)

The first stage of the framework starts with identifying a company's strategy. The strategy needs to have a close relationship with the performance measures to determine the achievement in the strategy of a company. The strategy should be based on the company's success factors and comparative properties. After determining the strategy, the performance measures are shown in stage two.

Stage two is classed as 'Performance Measurement Grid' (Table 2.5). It comprises six comparative properties such as quality, flexibility, cost, time, delivery, and people. These comparative properties are matched to strategic requirements and general measures for any company. In this stage, comparative priorities are matched with the strategy.

**Table 2.5: Performance Measurement Grid**

| Competitive Priorities | Company Success Factors |
|---|---|
| Quality | Improve supplier quality |
| Cost | Reduce stock |
| Flexibility | Reduce set-up times |
| Delivery | Achieve schedule |
| Time | Reduce lead-time |
| Future Growth | New product introduction |

Source: Medori and Steeple (2000)

In stage three, the most appropriate measures are selected from the measures identified in stage two.

Stage four is levelled as ‘Audit’. In this stage, the existing set of measures is examined with the measures identified in stage three. If a company has no existing set of measures, then this stage is omitted. The measures auditing follows three themes as follows:

1. If the existing measures tie with the new measures (identified in stage three) then the measurement is continued with the existing measures.

2. If the existing measures are not tied to the new measures, then the existing measures need to be replaced by the new measures because existing measures are termed as ‘false alarm’ (Dixon et al.,1990) that do not give the true picture of the performance.

3. New Measures that are implemented as a result of the failure of existing measures are important to the company’s success. Implementation of these measures enhances the performance of the company and ignorance results in misinterpretation of company’s performance measurement.

Stage five focuses on the implementation of the new measures recognised in stage three. The activities in this stage are most important within the framework.

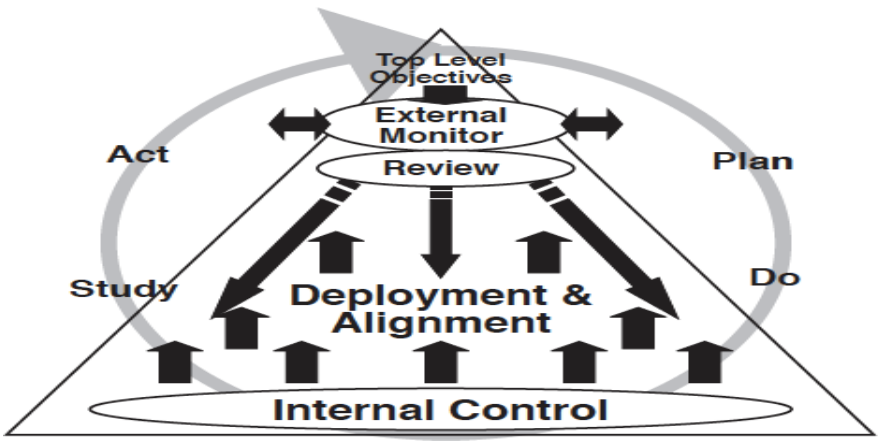
Stage six is the last stage in the framework which periodically reviews the performance measurement system. This stage is necessary because the measures which are appropriate today may not be appropriate in the future due to the change in strategy. A strategy of a business can be changed at any time because of the change in the external environment of business, for example, technology.

### xiii. Dynamic performance measurement systems

The Dynamic performance measurement system (DPMS) was developed by Bititci et al. (2000) aiming an integrated, effective, and efficient performance measurement system. In this performance measurement system, it is believed that the performance measurement system cannot be static because of the changes in the internal and external environment. Hence, the performance measurement system has to be dynamic (Figure 2.15) with the following characteristics:

- External Monitoring: Performance measurement system needs to be sensitive to external environmental changes and development.
- Internal Monitoring: Performance measurement system needs to monitor the internal environment continuously for changes and development. It should alert when certain performance targets are reached.
- Review: When the changes in the internal and the external environment are important, internal objectives are needed to be reviewed and reprioritised.
- Deployment: A system to deploy the changes to the internal objectives and prioritising the important parts of the organisation to ensure a continuous alignment.
- Gain Maintenance: Making sure the achievement is gained as the improved programmes are maintained.

Figure 2.15: Dynamic Performance Measurement System




Bititci et al. (2000)

However, the requirements mentioned above are deemed as framework requirements. To make the DPMS more capable, it has to support the information technology (IT) platform with the following requirements:

- IT platform needs to have the capacity to maintain a performance measurement system along with executive information system that facilitates senior executives’ decision-making needs.

- IT platform needs to be capable enough to accommodate and integrate with all the elements of the framework.
- IT platform should have the adaptability of the existing business environment.
- IT platform should be capable of executing simple rules to help performance management such as raising a signal, alarm, warning notice.

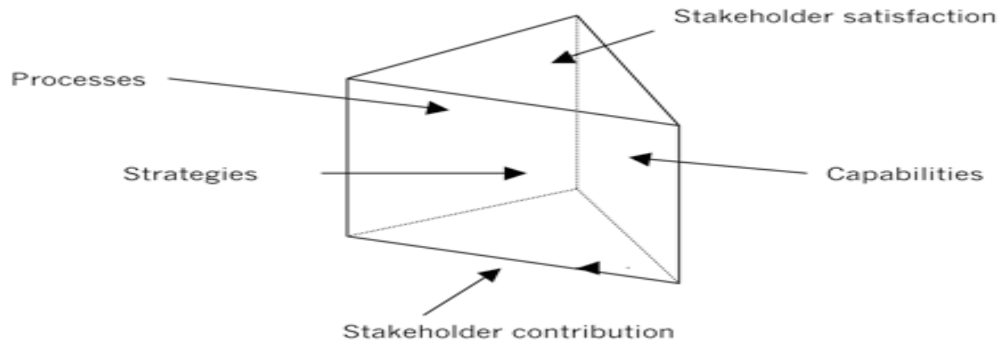
### xiv. Performance Prism

Neely et al., (2001) has developed the performance prism (PS) to measure the performance of financial and nonfinancial organisation. It is a second-generation performance measurement framework which provides a comprehensive measurement solution by focusing the key business issues. Unlike other frameworks, this framework asks critical questions and inspires managers to think through the relations of the measures.

The performance prism comprises of five inter-related perspectives (Figure 2.16) which are as follows:

- Stakeholder Satisfaction
- Strategies
- Process
- Capabilities
- Stakeholder Contribution

Figure 2.16: Performance Prism




Source: Neely et al. (2001)

The first facet of the PS is stakeholder satisfaction. In this perspective, the business organisation seeks who are the key stakeholders and what are their expectations. The key stakeholders are identified based on the amount of power they have and the likeliness of using their ability to influence the organisation. The stakeholder is any party by whom the organisations get effected or effect. The example of stakeholder is customers and intermediaries, investors, suppliers, employees, regulators, and communities. Once, the key stakeholders and their needs are identified, the strategy is designed to fulfil these wants and needs.

The second facet of the prism concentrates on strategies. Almost all of the performance measurement literature and framework mentioned that measures should be derived from the strategy (Neely et al., 2001). In fact, this is not the truth. The purpose of a business strategy is to achieve the business goal which is to deliver values to its stakeholders. The strategy facet asks a question - what is the strategy a business needs to have to satisfy its stakeholders' wants and needs.

The third facet of the performance Prism focuses on the process which asks the question- what is the process a business needs to have in place to facilitate strategy. The common generic business process aims to develop new products and services, fulfil demand, and plan and manage the enterprises. For each process, management should identify a specific measure to make sure that the process is on the right track. An operation manager may ask a question on each process that is whether the process working effectively and efficiently or not. If not, what are the reasons for the inefficiency and ineffectiveness?

The fourth facet of the PS considers the capabilities. Capabilities mean a combined power which includes technology, people, practice, and infrastructure. Capabilities ensure the smooth running of the business process for now and in the future. They are the core ability of the organisation to compete with others. If the right capabilities are not in the right place, it is not possible for the organisation to execute the process and maintain growth. A question is asked in relation to capabilities- what are the capabilities do we need to have to execute our process? Once the question is answered, the organisation then can identify the measures to assess whether the organisation has the required capabilities in place or not.

Stakeholder contribution is the fifth and final facet of the PS. This facet concerns about the contribution of the stakeholder to the organisation. It is believed that companies go into a relationship where the business organisation delivers value to the stakeholder, and in return companies expect stakeholder to contribute to the organisation. For example, an employee expects from an organisation a safe place to work and a better salary. Similarly, the organisation expects from the employees to contribute to the organisation by providing ideas, suggestion, expertise, and loyalties. This relationship applies to all other stakeholders such as supplier, customers, investors, and the local community.

The PS model is not a prescriptive measurement framework rather it is a framework to guide a management team to manage their business and to think about the key questions needed to be addressed for the business process.

Most of the models and frameworks discussed above indicate that a performance measurement should include various aspects of performance. The aspects of performance are the mixture of financial and non-financial facets of performance which are internal and external to organisations.

The performance measurement models and frameworks such as SMART, SPM, PMQ, CPMS, IPMS, IFMF, DPMS have raised an issue that a performance measurement system must be in line with the aim and objectives of organisations. Besides, organisations should consider the internal and external factors in devising their performance measurement systems. The internal and external factors must be a blend of financial and nonfinancial aspects of performance.

The performance measurement models and frameworks that include EFQM, BSC, SPN, CBS suggest that a performance measurement should consider the financial and non-financial aspects of performance which are derived from organisations' strategy. These models and frameworks also indicate that there is a cause and effect relationship between the aspects of performance. Nevertheless, the cause and effect relationship ignores the importance of other factors. For example, according to the BSC, the internal business process of an organisation is robust as a result of employee satisfaction, but in practice, this might not be the case. The internal business process could be robust due to the appropriate policies of an organisation.

However, the DEA is different from the other models and frameworks discussed above. It measures an organisation's performance through benchmarking by considering the input and output of the organisation.

Although every performance measurement model or framework is distinctive, the common message of all the performance measurement models and frameworks is that a performance measurement should be derived from an organisation's strategy. Moreover, these models and frameworks have highlighted the issue of inclusive performance measurement with blend of financial and non-financial aspects of performance. Also, these models and frameworks have moved the traditional performance measurement system to a strategy centered with the top-down or bottom-up approaches to performance measurement system.

## 2.7 Key Performance Indicators

The word 'Performance Indicators' (PIs) was first used in 1982 in a scheme called the Financial Management Initiative (FMI) introduced by the Thatcher administration in the United Kingdom. The PIs highlight the issues that are important to organisational performance (Carter et al., 1992). However, Jackson (1988) differed the performance indicators from the performance measures. On one hand, performance indicators highlight the issues that are important for an organisational success, and it alerts entrepreneurs to concentrate on those factors. On the other hand, performance measures mean when performance is calculated directly.

The Key Performance Indicators (KPIs) are those issues that are most important for the current and future success of an organisation. The PIs complements the KPIs that are used for a scorecard or to measure the success of a team, department, division, and organisation (Parmenter, 2015).

Wu (2012) identified the following KPIs (Table 2.6) for a bank based on the four perspectives of the BSC shown in Table 2.5.

**Table 2.6: Key Performance Indicators**

| Perspectives | KPIs | Description |
|---|---|---|
| Financial | Operating Revenue | Sales revenue. |
| | Debt ratio | Debts divided by assets. |
| | Return on assets | After-tax profit/loss divided by average total assets. |
| | Earnings per share | Net earnings divided by the number of shares. |
| | Profit margin | Profit/loss after tax divided by operating revenues. |
| | Return on investment | Profit/loss after tax divided by total investment. |
| Customer | Customer satisfaction | Customer satisfaction with products and service. |
| | Profit per online customer | Total online profit divided by total online customers. |
| | Market share rate | Sales volumes divided by total market demands. |
| | Customer retention rate | Capability of keeping existing customers. |
| | Customer increase rate | Growth rate of new customers. |
| | Profit per customer | Net profit divided by the total number of customers. |
| Internal process | Number of new service items | Total numbers of new service items. |
| | Transaction efficiency | Average time spent on solving problems occurring during transactions. |
| | Customer complaint | Customer criticisms due to dissatisfaction about products and services. |
| | Rationalised forms and processes | Degree of procedures systemized by documentation, computer software, etc. |
| | Sales performance | Successful promotion of both efficiency and effectiveness of sales. |
| | Management performance | Improvement of effectiveness, efficiency, and quality of each objective and routine. |
| Learning and growth | Responses to customer service | Numbers of suggestions provided by customers about products and services. |
| | Professional training | Numbers of professional certifications or training programs per employee. |
| | Employee stability | Turnover of employees. |
| | Employee satisfaction | Employee satisfaction with the company. |
| | Organisation competence | Improvement of project management, organisational capability, and management by objectives. |

Source: Wu (2012)

## 2.8 Conclusion:

This chapter has critically reviewed the meaning of performance and provided a chronological order of performance measurement models and frameworks development. Through a comprehensive discussion of these models and frameworks, this chapter provides a guideline for performance measurement by critically reviewing the existing performance measurement system. This indicates the gap in the literature of performance measurement and generates the research idea for the current research. Although each performance measurement model and framework is distinctive, the commonality in these performance measurement models and frameworks is that a performance measurement should be derived from an organisation's strategy. Additionally, these models and frameworks have moved the traditional performance measurement system to a strategy centered with the top-down or bottom-up approaches to performance measurement system.

Almost all of these models and frameworks discussed in this chapter have highlighted the importance of multi-dimensions performance measurement with the mixture of internal and external factors and financial and non-financial aspects of performance. However, the DEA is different from the other models and frameworks mentioned in this chapter. It measures an organisation's performance through benchmarking by considering the input and output of that organisation.

Moreover, the performance measurement models that include SMART, SPM, PMQ, CPMS, IPMS, IFMF, DPMS suggest that organisations should consider internal and external factors in devising their performance measurement systems. These internal and external factors must be a blend of financial and nonfinancial aspects of performance. Also, the performance measurement system must be in line with the organisations' aim and objectives.

Furthermore, the performance measurement models that include EFQM, BSC, SPN, CBS indicate that a performance measurement should be derived from organisations' strategy. These models and frameworks indicate that there is a cause and effect relationship between the aspects of performance. However, the cause and effect relationship ignores the importance of other factors. For example, according to the

BSC, internal business process of an organisation is robust as a result of employee satisfaction, but in practice, this might not be case. The internal business process could be robust due to the appropriate policies of an organisation or wider external economic factors .

An analysis of the models and frameworks discussed in this chapter suggests that the BSC model has the most commonalities with other models and frameworks. The BSC includes financial and nonfinancial aspects of performance in performance measurement and its performance measurement is derived from organisations' vision and strategy. Moreover, in a comparison with the other performance measurement models and frameworks, the BSC outlines the most fundamental and precise aspects of performance. Furthermore, according to the extant literature (For example, Al-Hosaini and Sofian, 2015; Rautiainen et al., 2008; Kald and Nilsson, 2000), the BSC is the most widely and acceptable tool for performance measurement as it considers the financial and non-financial aspects of performance in performance measurement. In addition, the existing literature (For instance, Ibrahim, 2015; Amiri et al., 2012; Frigo et al., 2000) suggest that the BSC is more appropriate in measuring bank performance because of its holistic approach to performance measurement.

Thus, the BSC has been suggested for the current research to measure the banks' performance in Bangladesh. The next chapter stems from this chapter and discusses the four dimensions of performance outlined by the BSC.

# CHAPTER THREE

# PERSPECTIVES OF PERFORMANCE

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# PERSPECTIVES OF PERFORMANCE

## 3.1 Introduction

As we move forward, the world changes in the natural and business senses. In the 21st century, for the sustainability of our planet, global warming and the environmental effects are becoming a key concern of everyone from individual citizen to multinational business. The rapid development of technology, globalisation, and dismantling result in the ways organisations are managed (Bititci et al., 2012). Hence, the performance measurement of an organisation does not only depend on the financial information, but also depends on the non-financial information (Neely, 2002).

Traditionally, banking performance is measured by focusing on financial information, for example, ratios analysis, data envelope analysis, and stochastic frontier approach. Many academics and entrepreneurs have criticised the traditional ways of performance measurement. Kaplan and Norton (1996) stated that traditional performance measurement focuses on past financial information which provides an incomplete and narrow picture of the organisation's performance. Reliance on past financial information hinders the future value of the business. Thus, they suggest that traditional measurement should be supplemented with the ones that reflect customer satisfaction, business internal process and ability to learn and grow. To complement the financial measurement of past performance with the measures of the drivers of the future performance, Kaplan and Norton introduced a performance measurement model called the Balanced Scorecard in 1992.

The existing literature (For instance, Ibrahim, 2015; LUEG and VU, 2015; Frigo et al., 2000) suggest that the BSC is more appropriate in measuring the bank performance as it considers both financial and nonfinancial information. The aspects of financial and nonfinancial performance are learning and growth, internal business process, customer satisfaction, and shareholder's returns (financial performance). The financial aspect of performance depends on how organisations perform on the non-financial aspects of performance (Kaplan and Norton, 1996, 2001; Kaplan, 2009).

Since introduction, the BSC gained popularity considerably among the managers all over the world, especially in Europe and America. Many organisations have already used this model, and much more are intending to employ in the future (Al-Hosaini and Sofian, 2015; Rautiainen et al., 2008; Kald and Nilsson, 2000). The BSC links organisations' strategies with their performance. The core of BSC is to include financial and non-financial measures in performance measurement from four perspectives (Kaplan, 2009).

Moreover, the models and frameworks discussed in chapter two raised the importance of multi-dimensions performance measurement with the mixture of internal and external factors and financial and non-financial aspects of performance. The performance measurement models such as SMART, SPM, PMQ, CPMS, IPMS, IFMF, DPMS suggest that organisations should consider internal and external factors in devising their performance measurement systems. These internal and external factors must be a blend of financial and nonfinancial aspects of performance. Also, the performance measurement system must be in line with the organisations' aim and objectives.

Furthermore, the performance measurement models that include EFQM, BSC, SPN, CBS indicate that a performance measurement should be derived from organisations' strategy. These models and frameworks also show that there is a cause and effect relationship between the aspects of performance. However, Norreklit (2000) argued that there is no cause and effect relationship between the aspects of performance, but the relationship is logical.

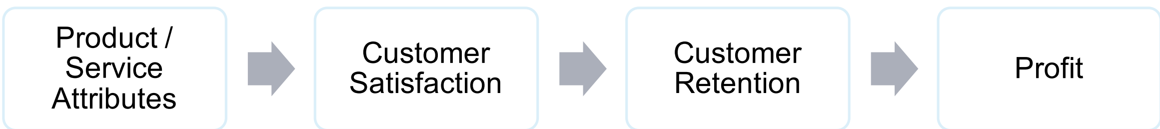
In addition, a critical analysis of the models and frameworks discussed in this chapter suggests that the BSC model has the most similarity with other models and frameworks. The BSC includes financial and nonfinancial aspects of performance in performance measurement and its performance measurement is derived from organisations' vision and strategy. Besides, as compared to other performance measurement models and frameworks, the BSC provides the most fundamental and precise aspects of performance. Also, according to the extant literature (For example, Al-Hosaini and Sofian, 2015; Rautiainen et al., 2008; Kald and Nilsson, 2000), the

BSC is the most widely and acceptable tool for performance measurement as it considers the financial and non-financial aspects of performance in performance measurement. Besides, the existing literature (For instance, Ibrahim, 2015; LUEG and VU, 2015; Amiri et al., 2012; Frigo et al., 2000) suggest that the BSC is more appropriate in measuring bank performance because of its holistic approach to performance measurement. Hence, the discussion on the aspects of performance outlined by the BSC has been the core to this chapter which facilitates to build the theoretical understanding of the determinants of the four aspects of performance.

### 3.2 Customer Satisfaction Perspective as a Performance Indicator

The performance measurement of an organisation considers customer satisfaction as crucial  because it is a prominent factor of a firm's performance and value (Sun and Kim, 2013). Customer satisfaction is closely related to the desired business outcomes. The literature in the field of customer satisfaction confirms that customer satisfaction positively impacts the purchase intention (Oliver 1981, Mittal et al., 2001), impacts customer retention (Anderson and Sullivan, 1993, Mittal and Kamakura, 2001) and impacts financial performance (Sun and Kim, 2013; Jham and Khan, 2009; Anderson and Mittal, 2000).  The relationship between customer satisfaction and profitability can be described in a sequence called 'customer satisfaction and profitability chain'.  A system thinking (Figure 3.1) underlies the customer satisfaction and profitability chain. Customer satisfaction can be increased by increasing the attributes of products or services. When customer satisfaction Increased, it leads to retaining customers which consequently improve the financial performance of an organisation (Anderson and Mittal, 2000).

Figure 3.1: Satisfaction- Profit Chain




Source: Author's diagram, concept obtained from Anderson and Mittal (2000), Lebas and Euske (2002 cited in Neely, 2002, p. 69), Buavaraporn and Tannock, (2013).

However, Norreklit (2000) argues that there is no such causal relationship between customer satisfaction and higher financial results. It is because the cause and effect relationship is not generic, and the higher financial return is not determined by a single driver customer satisfaction. Moreover, the relationship between an increased customer satisfaction and a higher financial performance is logical that cannot be verified.

### 3.2.1 Customer Satisfaction

Satisfaction is an outcome that arises from the consumption experiences (Anderson et al., 1994; Mandal and Bhattacharya, 2013) especially from the post-purchase consumption experiences (Oliver, 1981). A most common definition of customer satisfaction is defined by Kotler (2009) as a customers' feelings of pleasure or displeasure arise from the consumption of a product concerning customer's expectations. Vavra (2002, p.5) defines customer satisfaction as "customer's emotional response to his/her evaluation of the perceived discrepancy between the prior experiences and expectations of product or organisation and actual experience after consuming the product or interacting with the organisation". Similarly, Tse and Wilton (1988); Silvestri et al. (2017); Akhtar et al. (2016); Yuen (2015) believe that satisfaction is an evaluation that depends on the prior expectations or beliefs of the consumers. However, Olsen and Johnson (2003) view customer satisfaction from two perspectives: transaction specific and cumulative. On the one hand, transaction-specific customer satisfaction comes from a post evaluative judgment of a specific transaction. On the other hand, cumulative customer satisfaction is an overall evaluation of consumption experiences of a service or product over time. This type of satisfaction is a fundamental indicator of a company's past, current and future performance (Anderson et al., 1994). The definitions of customer satisfaction (Kotler 2009; Vavra, 2002; Tse and Wilton, 1988), indicates that expectations are at the heart of a satisfaction process.

The term 'expectation' in service quality literature differ from consumer satisfaction literature. In consumer satisfaction literature, the expectations are viewed as consumer's prediction about forthcoming transaction or exchange. By contrast, the service quality literature views expectations as consumers' desires or wants that make them to feel what a service provider should offer rather than would offer (Parasuraman et al.,1988). In line with consumer satisfaction literature, Yi (1991) describes expectations as consumer pre-consumption beliefs about the attributes or qualities of the products or services which are generated from the past experiences, word of mouth, organisation's advertisements, and product information. Thus, Oliver (1997) said if customers are more satisfied with past consumption then the future expectations will have a higher lead. Hence, satisfying customers have never been an easy task and the standard needs continuous improvement.

The term 'quality' refers to the features or characteristic of a product or service that can satisfy the needs. In modern concept, quality is termed as fitness for the purpose which has shifted the evaluation of quality from provider to consumer. The consumers' sensitivity to the quality of a service or a product is continuously increasing. Thus, the service providers need to be aware of the consumers' perceptions or attitudes towards the quality so that a quality service can be provided (Taap et al., 2011). However, Anderson and Sullivan (1993) claim that quality is distinct from satisfaction, but it is an antecedent of customer satisfaction.

Therefore, in the satisfaction process, consumers compare their expectations with the qualities of products or services to determines the level of satisfaction. Hence, satisfaction is closely related to the qualities of products or services. As the qualities of products or services dictate the expectations of customers, an instability in maintaining the qualities of products or services over times can mislead the expectations of consumers leading to satisfaction or dissatisfactions. Besides, customer satisfaction is considered as consumers' psychological state which is a result of an evaluation process that is undertaken by consumers from consumption experiences.

### 3.2.2 Service Quality and Customer Satisfaction

The studies (For instance, Silvestri et al., 2017; Akhtar et al., 2016; Yuen, 2015; Sanjuq, 2014; Taylor and Baker, 1994) in the area of service quality revealed that service quality is positively related to customer satisfaction. An in-depth review of literature in the area of service quality and customer satisfaction reveals a number of models and frameworks of service quality which are presented in Table 3.1.

**Table 3.1: Dimensions of Perceived Service Quality**

| Authors | Dimensions of Service Quality |
|---|---|
| Gronroos, 1979, 1982 | Functional quality, technical quality, image. |
| Lehtinen, 1982 | Output quality, process quality |
| Lehtinen and Lehtinen, 1982 | Physical quality, interactive quality, corporate quality |
| Albrecht and Zemke, 1985 | Care and concern, spontaneity and flexibility, problem solving, recovery |
| Parasuman, Zeithaml and Berry, 1985, 1988 | Tangibles, responsiveness reliability, assurance, empathy |
| Garvin, 1987 | Reliability, features, performance, conformance, durability, aesthetics serviceability, and perceived quality. |
| Gummersson and Gronroos, 1987 | Design, production, relational, delivery, technical, functional, image |
| Gummersson 1987 | Design, production, relational, delivery |
| Edvarsson, Gusravsson and Riddle, 1989 | Technical, functional, integrative, outcome |
| Gronroos, 1990 | Professionalism and skills, attitudes and behavior, reliability and trustworthiness, accessibility and flexibility, recovery, reputation, and credibility |
| Ovretveit, 1992 | Customer quality, professional quality, management quality |
| Cronin and Taylor,1992,1994 | Tangibles, responsiveness reliability, assurance, empathy |
| Gummersson, 1993 | Design quality, production and delivery quality, relational quality, and outcome quality. |
| Bahia and Nantel (2000) | Effectiveness and assurance, tangibles access, price, reliability, and service portfolio |
| Brady and Cronin, 2001 | Personal interaction quality, physical service environment quality, outcome quality |
| Tsoukatos and Mastrojianni, (2010) | Assurance/empathy, effectiveness, reliability, confidence, and a combination of BSQ and SERVQUAL dimensions |

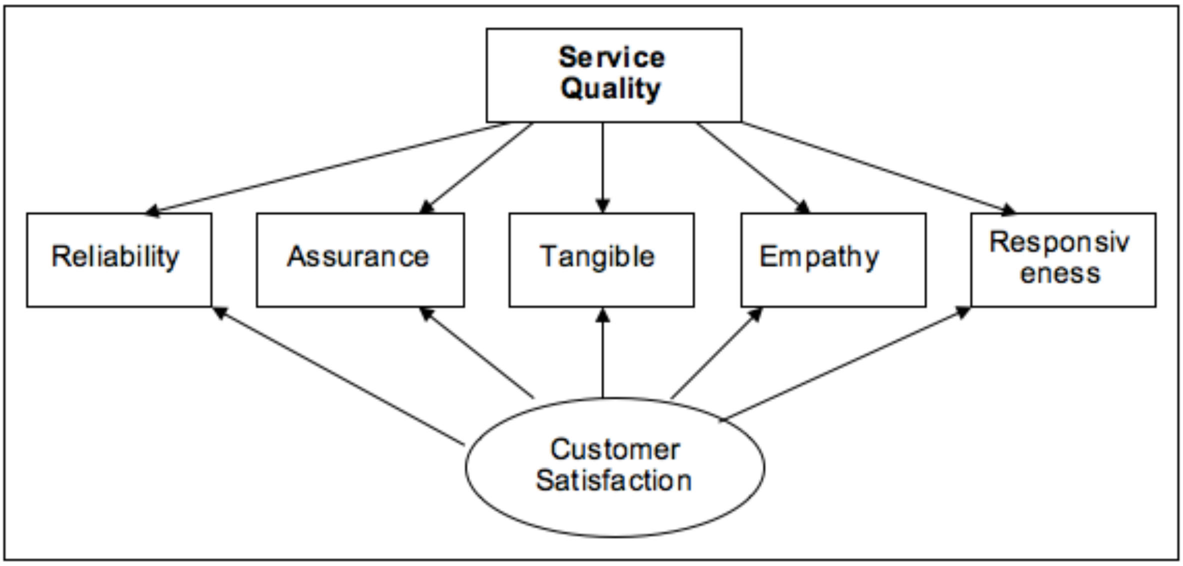
Source: Author's own table

**i. Service Quality Model**

Among the service quality models presented in Table 3.1, the most prominent and widely used model is presented by Parasuraman et al., (1985,1988). This model is called the GAP model or service quality (SERVQUAL) model. The GAP model concentrates on perceptions and expectations of customers which determine their satisfaction through an evaluation between the two (perceptions and expectations). The SERVQUAL model is considered to be generic to services industries in all context, although the interpretation of service quality differs across customer groups, culture, and the industries (Ladhari, 2009). It is generic in terms of tangibles, responsiveness, reliability, assurance, and empathy of the service quality (Saleh et al., 2017). The SERVQUAL includes customers' evaluation of excellence in products or services attributes which arises from the difference between pre-consumption experiences or expectations and post-consumption experiences (Culiberg and Rojsek, 2010; Parasuraman et al., 1988). The SERVQUAL model was originally developed based on the three dimensions which are tangible, reliability, and responsiveness. Later, these three dimensions have been extended by another two dimensions that are assurance and empathy.

Moreover, the extended two dimensions represent another seven aspects to include competence, understanding or knowing customers, courtesy, credibility, security, access, and communication. Therefore, the SERVQUAL model presented by Parasuraman et al. (1988 and 1985) is viewed from ten aspects. Customers can only distinguish the five aspects of service quality out of ten which include reliability, assurance, tangible, empathy, and responsiveness (RATER). Hence, RATER (Figure 3.2) is called a modified model of the SERVQUAL.

Figure 3.2: RATER Model




Source: Author's diagram, concepts obtained from Parasuraman et al. (1988 and 1985)

The components of SERVQUAL presented by Parasuraman et al. (1988 and 1985) are discussed as follows:

- **Reliability**: This dimension of service quality is attributed to the individual or the internal process that generates goods or services to meet customer expectations. Hence, reliability can be described as the ability to perform the promised service accurately and dependably.
- **Tangibles**: This is the material part of the services that customer can see physically. An example of this dimension can be the appearance of personnel, physical facilities, equipment, and materials.
- **Responsiveness**: Responsiveness refers to the willingness to help customers and to provide them with prompt services. It concentrates on the reaction of service providing personnel to customers' query.
- **Competence**: Competence refers to employees' required knowledge and skills to perform the service. It also includes the research capability of the companies that bring innovation to goods and services.
- **Understanding or Knowing Customer:** It denotes the ability of employees to

know customers and their needs. It also concentrates on the learning of customers' requirement, pays attention to the individual customer and recognises the regular customers.

- **Courtesy**: Courtesy includes the qualities of customer contact employees such as politeness, friendliness, respect, and consideration. It also considers the neat appearance and cleanliness of customers' contact employees. To have a decent look, employees are required to look after the consumers' property, for example, the employee should not wear a muddy shoe on the carpet.
- **Credibility**: Credibility comprises of trustworthiness, honesty, the believability of the service provider. Organisations should have customers' best interest in their heart to achieve this quality. Credibility comes from the characteristic of customer contact employees, company's reputation, and company's name.
- **Security**: Security makes customers feel free from risk, doubt, and danger. It includes physical safety, financial security, and confidentiality.
- **Access**: It includes the approachability and ease of contact that enables customers to have a less waiting time and a convenient location of the service facilities.
- **Communication**: It means informing customers in a language that they understand and listen to them. An organisation needs to provide prior information to customers on every matter that might impact the service quality. For example, any changes in operating hours need to be informed to customers.

However, according to Buavaraporn and Tannock (2013), the SERVQUAL model concentrates only on the functional part of a service and does not consider the technical aspect. It means the SERVQUAL model focuses on the ways (service delivery process) a service should be provided. Besides, this model fails to consider the outcomes of the service provided. There is also a little evidence of gaps model (evaluation between expectations and perceptions) in which the SERVQUAL model works (Buttle,1996). Although the SERVQUAL model has been criticised, it is a popular framework to measure customer satisfaction in the service industries (Ladhari, 2009).

### 3.2.3 Customer Satisfaction Theories

There are various theories underpin customer satisfaction. These theories examine the relationship between satisfaction, expectation, and product performance. Based on the theories of consistency (Peyton et al., 2003), the theoretical approaches to customer satisfaction fall in the following five theories:

- Contrast Theory
- Assimilation Contrast Theory
- Negativity Theory
- Dissonance Theory
- Hypothesis Testing Theory

Contrast theory was first brought out by Hovland et al. (1987) which focuses on the discrepancy between expectations and performance of a product. The discrepancy occurs when a product or service cannot satisfy the expectations. For example, when a manufacturer advertises its products or services, it creates customers' expectations. Later, when the advertised products or services cannot meet the customers' expectations, the customers become unsatisfied. The theory assumes that when products or services do not perform according to customers' expectations, it downgrades the products or services than its actual performance. In addition, the performance of products which is deviated from the expectations of customers is associated with positive or negative disconfirmation. Oliver (1997) claims that positive disconfirmation highly appraises the image of products or services whereas the negative disconfirmation results in an inferior product or service. However, this theory is not considered as generic to all products or services. Therefore, it can be accepted and rejected in a different situation or in the case of different products or services (Vavra, 1997).

Assimilation contrast theory is based on Festinger (1957) dissonance theory. As per this theory, consumers travel within the latitude of acceptable or unacceptable in accordance with their perceptions of products or services' performance. No study has defined this latitude or range, rather it is perceived by the consumers from consumption experiences and expectations. A product or service is considered to be acceptable when its performance falls within the latitude of acceptance, although the product cannot fully meet the expectations. If the performance of a product or service falls within the range of rejection (although the performance of products or services is very close to the expectations), the discrepancy will be exaggerated, and the product will be considered as unacceptable (Vavra, 1997). However, according to Payton el al. (2003), this theory does not specify the ways in which expectation disconfirmation leads to customer satisfaction or dissatisfaction. In addition, this theory believes that customers are motivated enough to adjust the latitude of expectations or perceptions of a product or service performance which is highly unlikely to exist in reality.

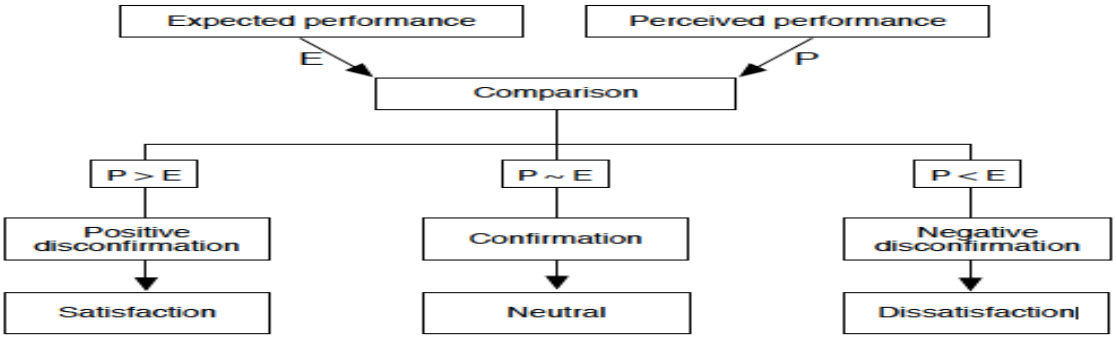
Negativity theory is presented by Carlsmith and Aroson (1963). This theory believes that a discrepancy in products or services' performance compared to expectations will create an adverse reaction in consumer's mind which is called “negative energy” that consequently turn into customer dissatisfaction. This theory also suggests that when consumers hold strong expectations and in the case of any disconfirmation, the consumers respond adversely. For example, after buying a computer, the customer founds a different hardware attached to the computer which was not as per the product's description. It will create a negative feeling toward the company because the customer has not received, what the company has advertised. Dissatisfaction also occurs when a product or service's performance does not exceed the product's expectations.

Dissonance theory of customer satisfaction is based on Festinger (1957) theory of cognitive dissonance. Cognitive dissonance means when there is an inconsistency in the thought or belief of a customer about a product or service. Customers resolve their cognitive inconsistency in three ways that include a change in belief, a change in action, and a change in the perception of action. As per cognitive dissonance theory, customer's negative experience or inconsistency form an inferior product tends to eliminated by lowering the expectations or by positively increasing the perception of products or services' performance. In addition, the customers may consider the time and effort spent to purchase the product to eliminate the magnitude of the dissonance in products or services' performance (Vavra, 1997). However, the notion the theory that consumers adjust their discrepancy has no confirmation, rather consumers compare between expectations and performance of product or service which results in a positive or negative attitude towards the product or service (Oliver, 1997).

Deighton (1984) presented hypothesis testing theory in two steps to customer satisfaction theory. The first step of this theory hypothesises that customers' pre-purchase information (arises from the advertisement) have a significant impact on building customers' expectations. Customers test their expectations by experiencing the products or services. The second step of the theory believes that customers are positive to confirm their products or services experiences with the expectations rather than disconfirmation. As such, this theory is considered as an optimistic theory. However, Vavra (1997) opined that this theory treats customers as biased because customers are inclined to confirm their products or services experiences with the expectations.

Hill (1986) introduced the disconfirmation of consumer satisfaction model (Figure 3.3). The model describes that consumers are satisfied or dissatisfied based on their expectations, intentions, and attitudes towards the products or services. Customers also perceive the performance of the products and services based their expectations. If the expectations exceed the perceived performance, a positive disconfirmation occurs and customers are satisfied. In addition, when the expectations are equal to the perceived performance, consumers hold a neutral confirmation and customers are neither satisfied or dissatisfied. Conversely, when the expectations cannot exceed the perceived performance, a negative disconfirmation appears and customers are dissatisfied.

Figure 3.3: Disconfirmation of Consumer Satisfaction Model




Source: Hill (1986)

Although the customer satisfaction theories are distinctive, the common message of these theories is that customers' prior expectations about the products or services dictate satisfaction or dissatisfaction.

### 3.2.4 Customer Satisfaction Measurement Techniques in Banking Sector

Service quality (SQ) measurement is the key issue of the service marketing literature. The most common practice for customer satisfaction (CS) measurement in the banking industry is concentrating SQ (Potluri et al., 2016). The studies (For instance, Silvestri et al., 2017; Akhtar et al., 2016; Yuen, 2015; Sanjuq, 2014) suggest that there is a positive relationship between SQ and CS.

Silvestri et al., (2017) claim that the dimensions of SQ (technical, functional, and company image) have a direct impact on CS in the thermal tourism sector. Similarly, Akhtar et al. (2016) identified that there is a positive relationship between the service quality dimensions and customer complaints in the banking sectors in Pakistan. Yuen (2015) found four key aspects of SQ in the liner shipping which are reliability, responsiveness, speed, and value that positively impact customer satisfaction. According to Sanjuq (2014), a superior service quality results in higher customer satisfaction. A high-quality service also increases the customer retention rate, creates a new customer with the help of word of mouth, and increases market share followed by profitability. Therefore, measuring SQ of a bank is deemed as a technique for measuring customer satisfaction.

However, although these two concepts (CS and SQ) seem similar, they are distinctive (Taylor and Baker, 1994) because of their dependent relationship where CS depends on the direct function of SQ (Hernon and Nitecki, 2001). The major difference between CS and SQ is that SQ denotes the core of the service delivery and the CS reflects customers' experiences with that service (Iacobucci et al., 1995).

There are various ways (Table1) of measuring the service quality in which the SERVQUAL model presented by Parasuraman et al. (1985) is the most widely used. A number of studies (For example, Melnic, 2016; Panda and Kondasani, 2014; Sulieman, 2013; Lau et al., 2013; Ilyas et al., 2013; Rakesh, 2012; Manshor et al., 2011; Khondaker and Mir, 2011; Rahaman et al., 2011; Ladhari et al., 2011; Ming and Ing, 2005). in the area of bank customer satisfaction measurement adopt the SERVQUAL model.

Markovic et al. (2015) compared SERVQUAL, BANKQUAL, SERVPERF, and BSQ for measuring bank service quality in India. The study found that every service quality model has its own psychometric properties of measurement. The study also claim that the SERVQUAL model has the highest reliability followed by the BANKQUAL, SERVPERF, and BSQ models. However, as per predictive and convergent validity and cross-validation, BANKQUAL has the highest validity. Although SERVQUAL is predominantly used in service quality measurement, it is not beyond criticism. Babakus and Boller (1992) identified weakness in the SERVQUAL variables loading as compared to the BSQ. Similarly, the BANKQUAL has been criticised based on the limitations in measuring service quality where tangible dimension has not been covered as part of the evaluation of service quality and electronic service quality such as internet banking, ATM, and phone banking have not been considered (Vanparia and Tsoukatos, 2013).

### 3.3 Employee Satisfaction as a Performance Indicator

Kaplan and Norton (2001) claim Learning and Growth (LG) as one of the aspects of performance, and a superior performance in the LG ultimately results in a higher financial performance. Hence, the LG is considered as “the black hole of the Balanced Scorecard” (Kaplan, 2009, p 22). The components in the LG are human capital, information capital, and organisational capital. Organisational capital comprises culture, leadership, and teamwork. Many companies have identified the measures for this perspective as employee satisfaction, turnover, absenteeism, and lateness (Kaplan, 2009). Kaplan and Norton (2001) presented the LG as employees' capabilities and skills, corporate climate, and technology. It has a root with the personnel development and employee attitudes (Kaplan, 2009). Wu et al. (2009) revealed the components of LG as employee satisfaction, professional training, organisational competence, employee stability, and response to customer service. Al-Najjar and Kalaf (2012) construct the measures for the LG as employee productivity, turnover, employee training programs, and growth of bank branches.

The literature (for example, Pareek, 2013; Hassan et al., 2013; Deshpande, 2012; Herzberg et al.,1959) in the area of employee satisfaction suggests that the measures of the LG can be replaced by the measures of employee satisfaction. This is because the measures of LG such as organisational culture, leadership, teamwork, information technology, personnel development, or capability and skills, and corporate climate determine employee satisfaction. In addition, employee satisfaction eliminates absenteeism, turnover, and lateness (Porter and Steers, 1973). Hence, measuring employee satisfaction enables an organisation to determine the performance in the LG.

Moreover, academics and practitioners have accepted the notion that employees are one of the most important elements in organisations. Employees satisfaction plays a vital role to achieve success for any business organisation (Pareek, 2013). Employee satisfaction is described as feelings or attitudes of an employee towards the work and different aspects of the work environment (Homburg and Stock, 2004). Weiss (2002) opined employee satisfaction as an evaluative judgment of people about their job and situation which is either positive or negative.

Employee satisfaction is considered as a performance indicator because a number of literature (For instance, Mafini and Pooe, 2013; Hassan, 2013; Chi and Gursoy, 2009; Wangenheim et al., 2007; Harter et al., 2002; Heskett, 1994) propose that employee satisfaction has a significant impact on customer satisfaction. As a result, employee satisfaction has received considerable attention from academics and practitioners (Chi and Gursoy, 2009). Employee satisfaction engages the employees with their job and makes them loyal to the organisation (Jun, 2006). In service industries, when an employee is engaged and loyal to the organisation, it increases service quality (Chi and Gursoy, 2009) that is the key to customer satisfaction (Silvestri et al., 2017; Akhtar et al., 2016; Yuen, 2015). The Service-Profit chain presented by Heskett and Schlesinger (1994) also suggests that an increase in employee satisfaction increases employee's loyalty and productivity that increases customer satisfaction leading to superior financial performance. Similarly, Kaplan and Norton (1996) believe that there is a causal relationship among the four perspectives of the Balanced Scorecard. The causal relationship is that if an organisation performs better in LG (employee satisfaction), it will improve the internal business process. If the internal business process of an organisation is improved, it will satisfy customers' requirements better leading to customer satisfaction. When customers are satisfied, it positively impacts financial performance.

Morevoer, the EFQM excellent model (2013) suggests that human resource management is correlated with business process and business process results in customer behaviour. The EFQM is supported by the Performance Prism model of Neely et al., (2001) where they proposed that a smooth running of business's internal process is ensured by its capabilities. The capabilities include technology, people, practice, and infrastructure which are the core ability of an organisation. Therefore, improvement in the capabilities such as employee's training and rewarding improve employee satisfaction that consequently facilitates the internal process.

### 3.3.1 Influencing Factors of Employee Satisfaction

Employee satisfaction is underpinned by various aspects of job satisfaction (Dugguh and Dennis, 2014). Spector (1997) states employee satisfaction as people's feelings towards various facets their job. Luthans (2010) views employees satisfaction as positive judgment on the fulfilments of their expectations from job. Similarly, according to Armstrong (2003), employee satisfaction is employee's positive or negative feelings and attitudes towards the job.

Job satisfaction is closely linked to the aspects of motivation. Deci and Ryan (2002) define motivation as fundamental factors (extrinsic and intrinsic) of an organisation that impact the behaviour of an employee to engage in organisational activities. Kanfer et al. (2012) define motivation as a set of programmes that drive employees to use their skills and knowledge in every possible action of work. A review of literature in the area of job satisfaction indicates the following theories are widely used to determine the influencing factors of job satisfaction which also considered as classical motivational theories:

- Herzberg two factors theory
- Maslow Motivation theory

Herzberg et al. (1959) present a two-factor theory on employee motivation which determine employee satisfaction and dissatisfaction. As per the theory, a number of factors related to satisfaction and dissatisfaction exist independently in a work environment. The Herzberg motivational theory divides job motivational factors into two categories that are classed as two factors theory. The two factors of the theory are called hygiene factors and motivators factors. In a further study, Herzberg (1982) claimed that hygiene factors are neither directly involved with employee motivation nor improve employees' performance noticeably. Hence, hygiene factors are considered as extrinsic factors that are closely linked to the work environment for a superior employee performance. However, an absence of these factors (hygiene) leads to employee dissatisfaction. As per Herzberg (1987) theory, the motivators factors, on the other hand, are considered as intrinsic factors that are associated with the content of work. Motivators factors are directly involved with employee satisfaction and dissatisfaction. The motivators and hygiene factors are listed in Table 3.2.

**Table 3.2: Employee Satisfaction and Dissatisfaction Factors**

| Motivators Factors | Hygiene Factors |
|---|---|
| Recognition | Company policy |
| Achievement | Working conditions |
| Responsibility | Supervision |
| The job itself | Relationship with supervisor and colleagues |
| Advancement | Financial rewards |
| | Promotion |

Source: Herzberg et al., 1959

Maslow (1954) claims that human needs are the determinant of satisfaction which can be presented in a hierarchy of pyramid. According to Maslow's pyramid of needs, human needs are not static and they tend to move up the pyramid. It is because once a need is fulfilled, another need arises. As a result, the level of satisfaction with the existing supplies does not stay the same. The human's needs are ranging from physiological needs, safety needs, belongingness and love, self-esteem, and self-actualization. Physiological needs are considered as the most basic human needs that include food, sleep, shelter, and clothes. Safety needs are the needs that make human to feel safe from harm. The safety needs include health, employment, family, and social stability. The belongings and love needs refer to the sense of connection such as friendship, family, and intimacy. When the basic and safety needs are fulfilled, human seek to achieve self-esteem needs. The self-esteem needs include achievement, recognition, and respect. Lastly, when the basic, safety, and esteem needs are satisfied, individuals develop the feelings for the self-actualization needs to be met. The self-actualization needs are the highest level of needs at the pyramid which emphasise on human full potentials and the ways to achieve these potentials. The example of self-actualization needs include aspirations, creativity, personal growth, morality, and spontaneity (Cao et al., 2013).

The motivation theories (For instance, Herzberg et al., 1959 and Maslow, 1954) discussed above suggest that employee satisfaction depends on the fulfilment of needs and expectations of employees from their job. Herzberg et al. (1959) believe that when the two factors hygiene factors and motivators (Table 3.2 ) are available in a work environment setting, employee will be satisfied. That is why organisations should ensure the availability of these hygiene and motivators factors to make their employee happy. However, according to Maslow (1954) theory, employee satisfaction is not static although it is determined by employee’s needs. This means it not an easy task to satisfy employee in a work environment. Hence, organisations should continuously monitor the needs of their employees, and ensure the availability of resources (motivators) that fulfil the needs.

Moreover, a number of research in the banking area identify the factors that significantly impact employee satisfaction. Pareek (2013) studied the contributory factors of bank employee satisfaction in India. In his research, the main contributing factors to job satisfaction are organisational support, motivators, rewards, job enrichment, and career growth. Baker (2009) identified the main factors of banks’ employee satisfaction as people at work, supervision, and promotion opportunity. Baker’s study is supported by the study of Shaikh et al. (2012) except for the factors of financial rewards and the work itself.

The study of Mansor et al. (2012) reveals the employee motivational factors within the banking sector which include working environment, rewarding system, supervision and leadership, and the competitive atmosphere. Similarly, Deshpande (2012) found salary, relationship with colleagues and senior offices, working condition, and training and development have a direct impact on employee satisfaction.

Sowmya and Panchanatham (2011) found payment and promotion followed by the organisational aspects, behaviour of the supervisor, working condition, and the behaviour of the co-employees as the most critical factors of job satisfaction. Hassan (2013) outlined supervision, training and development, teamwork, payment, policy, and support are the factors that impact the employees' job satisfaction. The studies of Sowmya and Panchanatham (2011) and Hassan (2013) is supported by the study of

Chowdhary (2013) where he found salary, promotion, performance appraisal, relationship, training and development, workload and hours are the influencing factors of employees' overall job satisfaction.

However, Khan et al. (2013) divided the employees' motivational factors as intrinsic and extrinsic. On the one hand, the Intrinsic factors include security, social service, ability utilisation, variety, moral values, and authority. On the other hand, the extrinsic factors deal with recognition, advancement, supervision and human relationship, and co-worker.

The theories and the studies discussed above indicate the aspects of job satisfaction that include monetary rewards, supervision, company policy, training, promotion, working environment and conditions, recognition, the job itself, participation, workload, and teamwork. These aspects of job satisfaction have been considered for the construction of employee satisfaction questionnaire for the current study.

### 3.4 Internal Business Process as a Performance Indicator

Kaplan and Norton (2001) describe the internal business process as a process by which an organisation confirms its products and service satisfy the needs and expectations of customers. According to them, a business process consists of four components which are as follows:

- Innovation process.
- Customer management process.
- Operational management process.
- Regulatory and social process.

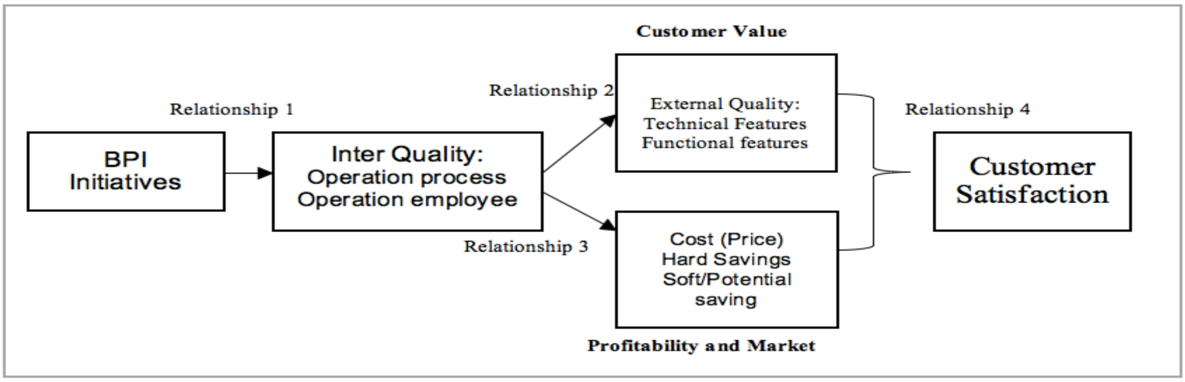
An innovation process enables an organisation to gain a competitive advantage. It attracts new customers and drives the existing customers to be loyal to a company. Customer management process aims to increase customer's values by improving the attributes of its products or services. It facilitates a business to identify and attract a new segment of customers. Accordingly, this process retains the existing customers by ensuring the quality of products or services, by correcting the problems, and by building a good relationship with them. Moreover, the customer management process helps a business to sustain and grow leading to profitability. Operational management process aims to achieve operational excellence by concentrating on the development of a sustainable relationship with the suppliers, production of goods and services effectively and efficiently. An effective and efficient operation process lower the production cost, hence, goods and services can be delivered reliably at a lower cost. In addition, when the operation management process is robust, it minimises business and operational risk, for example, a reduction in the operational wastages results in profitability. The regulatory and social process aim to be a good neighbour by reducing environmental pollution, improving health and safety at work, having diversified employees, and community investment (Kaplan and Norton, 2001). However, Guha and Kettinger (1993, cited in Trkman, 2010) view business process as a complete set of activities that are dynamically coordinated or logically related to produce values to its customers and fulfil the strategic goals.

A business process is crucial for a successful business organisation. In the regards, Antony (2004) says that Customer satisfaction, low-cost products and services, and operational efficiency are the most import factors for a business to be competitive and maintain a long-term sustainable profitability. As a result, financial institution emphasises on the business process improvement (BPI) to increase the efficiency, to lower the operating cost, and to provide a better service. Lebas and Euske (2002 cited in Neely, 2002, p. 69) highlight through a performance tree (figure 2.1) that a business process improves the attributes of products and services which subsequently increase customers' values leading to customer satisfaction. Additionally, service profit chain (Heskett et al.,1994) suggests that human capital and organisation process improve customer satisfaction that consequently leads to higher financial performance.

Moreover, Sidorova and Isik (2010) investigate the business process (BP) from various aspects by analysing the abstract of several academic journals. The study focuses on the impact of BPI on customer satisfaction leading to achieving the business goal. Afterwards, the study recommends that a development in BP increases the quality of products and services, and the operational efficiency leading to achieving the organisational goal.

In terms of financial institutions, Buavaraporn and Tannock, (2013) examine how BPI can be applied to improve service quality leading to improving customer satisfaction. The research portrayed the impact of BPI on customer satisfaction that has been shown in Figure 3.3.

Figure 3.4: BPI and Customer Satisfaction Model.




Source: Buavaraporn and Tannock, (2013)

According to the BPI and customer satisfaction model, when the BPI is initiated on a project or a service organisation, it increases customer satisfaction through four interrelated relationships. The discussion on these relationships are as follows:

*Relationship 1:*

The BPI impacts the internal qualities of an organisation which consists of operational process and aspects of operations employees. The aspects of operations employees are mainly enhanced by the BPI that include employees' satisfaction, skill development, attitude, and productivity. When the aspects of operational employees are improved, it impacts positively on both the operation process and the service quality leading to customer satisfaction. Therefore, BPI increases employees' satisfaction, and when employees are satisfied, they perform vigorously to satisfy customers. However, Kaplan and Nortor (2001) opine the opposite in this regards. They argued that when the employees are satisfied with the development of the various aspects of learning and growth, it improves the internal business process leading to customer satisfaction.

*Relationship 2:*

The aspects of internal quality (operation process and operation employees) facilitate the external quality that consists of technical features and functional features of the service quality. The technical service quality begins by questioning- what (for example, accuracy, speed, and flexibility) a customer will receive from a service transaction. The functional service quality concentrates on the question- how (for instance, reliability, responsiveness, assurance, empathy, and tangible) the technical service will be delivered to customers (Gronroos, 1984). An improved operation process enhances the technical quality of service, and the skilled operation employees improve both the technical and operational quality of the service to achieve customer satisfaction.

*Relationship 3:*

The internal quality not only influences the external quality of an organisation but also impact the cost of production or service. An improved operational process and employees facilitate efficiency and productivity. Also, efficiency and productivity result in cost reduction leading to profitability.

*Relationship 4:*

Finally, there is a close relationship between the internal quality of service and the external quality of service. The improvement in the internal quality positively impacts the external quality (aspects of service quality) and price that consequently increase customer satisfaction.

The above discussions reflect that a robust internal business process is an indicator of superior performance. It is because the needs and expectations of customers are fulfilled by a business process. Therefore, when the business process is effective and efficient, superior products or services are expected to be produced which subsequently fulfils the needs and expectations of customers. When customers' demands are met, they tend to be satisfied and loyal to their suppliers. When customers are satisfied and loyal, it leads to a higher financial performance by repeat business from existing loyal customers, attracting new customers by word of mouth, and charging a premium for goodwill. Hence, in the case of performance measurement, the effectiveness and efficiency of the internal business process of an organisation need to be measured as a key aspect of performance.

### 3.4.1 Internal Business Process Measures in Banking Sectors

A number of studies have been carried out to measure banking performance using the BSC. Wu et al. (2009) and Wu (2012) measured banking performance using the BSC where they adopt six measures for the internal business process measurement. These measures include a number of new service items, customer complaints, transaction efficiency, rationalised forms and processes, management performance, and sales performance. Moreover, Balkovskaya and Filneva (2016) identified the measures for an internal business process which are the number of new products/services, transaction efficiency, customer complaint, rationalised processes, the time is taken for new products/services development and launch, and sales channels development. Furthermore, Frigo et al. (2000) identified revenue from a new consumer product, cross-sell ratio, and channel mix as measures of bank internal business process.

However, the studies (Panicker and Seshadri, 2013; Al-Najjar and Kalaf, 2012; Amiri et al., 2012) mainly emphasis on growth in order to devise the measures for internal business process of the BSC. The measures Panicker and Seshadri (2013) adopt are business per employee growth, the growth of banking services, credit growth, process and reliability operational errors, and numbers of suppliers. Al-Najjar and Kalaf (2012) measured the internal processes of the banks using productivity growth, the growth of banking services, credit growth, growth in software applications, and front office employees. Amiri et al. (2012) used the measures of internal processes which include productivity growth, credit growth, the growth of banking services, growth in software applications, and front office employees.

Besides, as per General Electric performance measurement system, the internal business process measures are recognised as productivity, product leadership, and public responsibility (Lewis, 1955, cited in Kaplan, 2009, p.5).

Based on the above discussion and the definition of internal business process, the key measures for the internal business process are the number of new service items for the Innovation process. With regards to the customer management process, the key measure is customer complaints. In terms of regulatory and social process, the predominant measures are public responsibilities and employee diversification. In relation to the operational management process, the key measures are transaction efficiency, credit growth, growth of banking services, and productivity growth.

### 3.5 Financial Perspective as a Performance Indicator

Performance measurement based on accounting measures has become traditional quantitative tactics to performance measurement of an organisation. Over the past decades, a considerable attention has been given to the development and use of non-financial measures of performance to motivate and report on business performance. At the operational level, performance is measured using specific performance indicators that are not measured in accounting figures. Although the financial measures are used at the most senior level, non-financial measures have received considerable recognition for effective and efficient measurement of the organisational performance (Kaplan and Norton, 1996). Despite many incapacities with the financial measures, it has three primary functions in the organisational performance measurement (Outley, 2002) which include a tool for financial management, an overall business objective, and motivation and control.

#### *i. A Tool for Financial Management*

Every business organisation deals with the finance to meet its activities. One of the main roles of a finance manager is to manage the financial resources, and failure to do so can lead to a financial disaster. Robust financial planning and control are necessary to maintain healthy finance of an organisation. Financial planning mainly focuses on three major areas.

The first area is a cash flow planning to ensure that the necessary cash is available to run the business. Failure to do this will make the business unable to pay a legitimate payment on time leading to insolvency. The second area of financial planning is to focus on the profitability of a business that is needed as working capital. Over the life of a business, total profit and the total net cash flow is equal, but in short-term they seem different. The reason for the difference between the total net cash flow and the total profit is due to the period. The total profit of a business is only achievable at the end of the business or the project but the day to day business activities acquire a part of it (total profit). If a business cash flow does not meet the demand for the working capital, the business falls into insolvency and in some cases failure (Outley, 2002).

A lack of working capital arises the third focus of the financial planning which is ‘asset and the provision to finance it’. Therefore, the financial management should emphasis on both the acquisition of financial resources and their effective and efficient investment (Outley, 2002). The most powerful tool to report on this performance is to analyse the financial ratios. The overall financial performance (profitability) is measured by dividing the return (profit) on the capital invested namely return on capital employed (ROCE). Return from the business can be calculated before or after deducting the debt interest. Invested capital can be based on debt and equity or only the owner’s capital called equity (Siraj and Pillai, 2012).

The appropriateness of the calculation depends on the objectives of a firm. If the focus is on the efficient uses of financial resources by the firm, then the profit before tax and interest (PBIT) is a preferred calculation. Same way, if the focus is on the efficient use of the equity by the firm, then the profit after tax and interest (PAIT) divided by equity is calculated. Therefore, there is no definite set of ratios to calculate financial performance. Instead, devising a set of ratio depends on the different aspects of the financial performance. However, to measure and compare the financial performance by the ratios from the company’s annual report, care must be taken to make sure that the companies use the same accounting principle. As ‘cherry picking’ is not an uncommon practice and it is possible within the generally accepted accounting principles (GAAP). Finally, financial ratios provide an organisation with the necessary information on the deficiencies arising from the operation and help manager to take necessary steps to eliminate the financial distress (Outley, 2002).

### *ii. An Overall Business Objective*

The second key role of financial performance measurement is to meet the needs of the capital providers of both debt and equity. An organisation primarily produces the annual report to inform the shareholders (equity providers). It also provides information to bankers and other debt providers. Organisation's annual reports can be deemed as a reflection of the internal measures and ratios that cover cash flow, operating profit, and the value of the assets. The usefulness of the reporting to the shareholders is that the shareholders want to control the manager although it is less effective because the shareholders hold less information than the manager. However, active investors (institutional shareholders) have more access to the internal information of the company than the ordinary shareholders and seek to get more prospective information that annual report cannot provide (Outley, 2002).

The shareholders are the owner of any residual financial benefits (profit) of the company that comes from its activities. The profit figure is identified after taking off all the expenditures of the organisation including interest of debt capital and tax. Part of this profit is distributed to the shareholders in the form of dividend and the remaining of the profit is retained as a retained earnings. If an organisation cannot make a profit, the dividend can still be paid from the previous retained earnings. If this continued, the company will eventually go bankrupt and the shareholders will lose their investment. Therefore, profit is a key financial performance indicator to shareholders (Al-Hares et al., 2013). A most widely used measure of profit for the shareholders is earning per share (EPS). The EPS is calculated by dividing the total net profit by the number of issued shares of the company. A shareholder receives not only a dividend but also a capital gain if the share price goes up. A company's share price depends on its past financial performance and the prospect of the company. The prospect of the company is identified by calculating a price-earning (P/E) ratios. Hence, the P/E ratio focuses not only on the past performance of the company but also the future prospect of the company. The P/E ratio is calculated with the current share price over the last reported profit of the company. The higher the P/E ratio, the better the prospect (Easton, 2004).

### *iii. Motivation and Control*

The ultimate role of a business manager is to increase shareholders' values. Shareholders' values are increased by effective and efficient management of the business' resources. Accounting measurement plays a significant role in measuring the performance (effectiveness and efficiency) of a management or a manager. If a manager performs less than a target, the necessary steps are taken to improve the performance. So, financial measurement helps in controlling management activities. Similarly, if a manager performs well, it motivates for higher performance. Therefore, 'motivation and control' is the third major functions of accounting performance measurement.

So, the reflection of the above discussion is that accounting (financial measures) is a language to represent different activities of a business into an aggregated measures, for example, profitability, sales revenue, and cost. To control the performance, an accounting measure of the results is not sufficient rather the drivers of the performance need to be considered. Drivers are those activities (financial and non-financial), that are believed to be undertaken to get the optimum results.

### 3.5.1 Financial Performance Measurement Techniques

Performance measurement by using ratios are based on historical accounting data. Ratios provide an indication of the strength and weakness of an organisation to its investors and other users. Ratios analysis are the most widely used and common method to measure the financial performance of banks (Rahman and Masngut, 2014). The sources of financial information for calculating the ratios are companies' financial statements.

A substantial number of studies have used ratios to measure and analyse the financial performance of banks. Erol et al. (2014) measured the performance of sixteen conventional and four Islamic banks in Turkey throughout 2001-2009 using financial ratios based on CAMEL approach. The CAMEL approach focuses on the ratios that include capital adequacy, assets quality, management capability, earning, and liquidity. The studies (Nimalathasan, 2008; Khatik and Nag, 2015; Rahman and

Masngut, 2014) have also used the CAMEL approach to measure the financial performance of banks.

Wasiuzzaman and Umadevi (2013) analysed the performance of nine conventional and five Islamic banks in Malaysia from 2005 to 2009 by using financial ratios and regression analysis to analyse the effect of the variables on the banks' performance. The ratios this study used include return on average asset, liquidity, operational efficiency (net interest margin), capital adequacy, and asset quality. Similarly, financial ratios have been used for the studies of Siraj and Pillai (2012) in Gulf Cooperation Council (GCC) region to assess the bank performance by using operating profit ratio, net profit ratio, return on asset, return on share capital, and return on total capital, and efficiency.

Al-Hares et al. (2013) compared the banks' performance between Islamic banks and conventional banks in the GCC region by applying the ratios of profitability, liquidity, efficiency, solvency, and internal growth rate. In addition, Ika and Abdullah (2011) compared the performance between Islamic banks and conventional banks in Indonesia using almost the similar financial ratios that were used by the study of Al-Hares et al. (2013). Moreover, Fayed (2013) studied banks performance in Egypt by using the ratios of profitability, liquidity, and credit risk, and solvency.

An analysis of the studies above suggests that the most commonly and widely used ratios to measure the bank financial performance are profitability, liquidity, solvency, capital adequacy, and asset quality that are discussed below.

#### i. Profitability

Profitability aims to assess the ability of profit generation of a firm. It considers the profit against its total expenses and costs. It is one of the fundamental ratios for financial analysis. Profitability is divided into three ratios that include profit margin (PM), return on asset (ROA), and return on equity (ROE) (Al-Hares et al., 2013).

PM indicates the overall profitability of a bank that considers the net profit over its revenue. The calculation of PM as follows:

$$\text{Profit Margin} = \text{Net Profit} \div \text{Revenue} \times 100$$

As the net profit subtracts all the expenses, this ratio reveals the banks' effectiveness in cost control. The higher the PM ratio, the higher the effectiveness in converting revenue into profit. As PM shows the relationship between profit and investment, it can be expressed at the rate of return when the revenue generation is split into its various elements such as asset and equity. Some examples of the rate of return include return on equity, return on capital employed, and return on asset (Najjar, 2013).

The ROA reveals the performance of a bank concerning its asset utilisation. It focuses on how a bank utilises its assets to earn a profit (net profit). The assets of a bank represent its total liabilities plus shareholders' equity. It also indicates the operational performance of the banks by showing how much revenue is generated per currency value (£1) in relation to its asset (invested capital). The higher the ratio, the better the performance of the company (Al-Hares et al., 2013). It is calculated by dividing the net profit over the total asset as follow:

$$\text{ROA} = \text{Net Profit} \div \text{Total Asset} \times 100$$

Although the ROA has been criticised due to its reluctance to consider the off-balance sheet activities (Flamini et al., 2009), it has received popularity and widely been used by several authors in financial performance measurement of banks. It gains popularity because the ROA reveals the management's capability and effectiveness in asset allocation to generate the net profit (Alkassim, 2005). Accordingly, Bashir (2003) states that the ROA is the best measure and remain superior to assess bank financial performance.

The ROE reveals the financial performance of a bank in terms of its equity utilisation. It indicates the management ability and efficiency to generate the operating profit by investing the shareholders' funds. It is calculated with the net profit divided by the total equity of the bank as follow:

$$\text{ROE} = \text{Net Profit} \div \text{Equity} \times 100$$

The ROE has also been criticised because of its ignorance of financial leverage and its associated risk (Flamini et al., 2009). However, it is a popular and widely used measure to assess the banks' financial performance (Bashir, 2003). Also, it covers a wider source of funds, hence, it is more comprehensive than other profitability metrics, for example, return on capital employed.

**ii. Liquidity**

Liquidity means cash or cash equivalent a bank has available to operate. Cash equivalent means how quickly a bank converts its asset into cash to settle its depositors' withdrawal request. Liquidity can be calculated by considering banks' net loan over its total assets as follows:

$$\text{Liquidity} = \text{Net Loan} \div \text{Total Assets} \times 100$$

On the one hand, the high liquidity of a bank ensures a better settlement of the depositor's withdrawal demand, but it reduces the banks' profitability. On the other hand, less liquidity increases the banks' potential risk of running out of cash to meet the withdrawal demand. Thus, banks liquidity need to be managed effectively and efficiently to maximise the profit. There is a negative relationship between liquidity and profitability (Ramadan, 2011). However, Al-Omar and Mutairi (2008) believe that there is a positive impact of high liquidity on profitability based on the fact that high liquidity lessens the transaction cost and meet the obligation without incurring any undesirable losses.

**iii. Solvency**

Solvency ratio indicates banks' ability to meet its short-term and long-term obligations. This ratio can be termed as financial leverage that specifies the amount of debt in which a bank relies on rather than equity capital. According to the purpose of the account users, solvency ratio is calculated by considering the number of variables such as debt to equity, debt to total assets, net income to total liabilities, and total assets to total equity (Al-Hares et al., 2013). Moreover, solvency ratios can be termed as gearing ratios that mainly consider debt over equity or debt over total asset (McLaney and Atrill, 2016). Debt over equity indicates how much debt a bank has compared to its equity. The lower the ratio, the higher the solvency and less chance to be bankrupt. It is calculated in the following way:

$$\text{Solvency} = \text{Debt} \div \text{Equity} \times 100$$

Debt over total assets indicates the amount of debt a bank has as compared to its total assets. The higher the ratio, the higher the debt a bank has or higher the risk. It is calculated as follows:

$$\text{Solvency} = \text{Debt} \div \text{Total Assets} \times 100$$

**iv. Capital Adequacy**

Capital Adequacy indicates the strength of capital of a bank. It helps to maintain depositors' confidence and stability in the financial demand. It also indicates the bank's ability to absorb future loss (Wasiuzzaman and Umadevi, 2013). It is calculated by the total capital of the banks divided by its net loan as follows:

$$\text{Capital Adequacy} = \text{Total Capital} \div \text{Net Loan} \times 100$$

In general, a bank should maintain 8% of the capital ratio (Wasiuzzaman and Umadevi, 2013). However, the higher the ratio, the better the ability and the safer.

**v. Asset Quality**

Asset quality focuses on the credit risk associated with the banks' lending. Credit risk occurs when a bank fails to collect its principal (loan) and its return either completely or partially. The credit risk is originated from a poorness of the asset quality (Ramadan, 2011). The asset quality depends on the risk-taking behavior of the bankers, assessment, and monitoring. The asset quality can be improved by having enough provision against potential losses, collateralising the loans, and by avoiding the investment tendency on the same economic sector or geographical area (Hassan and Bashir, 2003). Credit risk is measured in many ways such as by considering the nonperforming loan over total gross loans, net loan over total assets, and total loan over the total deposit.

### 3.6 Conclusion

This chapter has discussed the four perspectives of performance which are customer satisfaction, employee satisfaction, internal business process, and financial performance. These four aspects of performance are considered as the key performance indicators which have been the areas for measuring bank performance for the current research.

Customer satisfaction is an outcome that comes from consumption experiences. A customer is satisfied when consumption experiences exceed customer's prior expectations towards the quality of products or services. As per service industry literature, customer satisfaction is measured by considering service quality. Thus, this chapter reviewed the service quality measurement models and frameworks. The existing studies suggest that the SERVQUAL model is the most appropriate and widely used model for measuring customer satisfaction which has been suggested for the current research.

Employee satisfaction is the feelings or attitudes of an employee towards work and various aspects of the work environment. The literature in relation to employee satisfaction suggest that employee satisfaction is determined by employee's expectations towards various aspects of a job. So, job satisfaction is an antecedent of employee satisfaction which is closely related to the aspects of motivation. This chapter, therefore, reviewed the classical theories of motivation linked to job satisfaction. This chapter also reviewed the empirical studies on the determinants of employee satisfaction. These classical motivational theories and the empirical studies have been the foundation for devising measures for employee satisfaction for the current research.

An internal business process is a process in which an organisation produces products or services. An internal business process is considered as robust when its products or services can fulfil the needs or expectations of customers. The fundamental components of an internal process are innovation process, customer management process, operational process, and regulatory and social process. Among these aspects of internal business process, this research measures internal business process by considering the customer management process and operation management process. The empirical studies and theories on internal business process dictate the construction of the measures for internal business process for the current study.

Financial performance is traditional quantitative tactics to performance measurement. It focuses on the past financial information and based on accounting measures. Although financial performance measurement cannot predict the future prospect of an organisation, it is considered as a tool for financial management, an overall business objective, and motivation and control. As per the existing studies, the major financial ratios include profitability, liquidity, solvency, capital adequacy, and assess quality. However, the profitability ratios are considered to measure the banks’ performance for the current research.

Moreover, this chapter has provided a guideline to design the research instruments (questionnaires) for the current research. The next chapter critically discusses the religious impact on the determinants of four aspects of performance.

# CHAPTER FOUR

# THEORETICAL FRAMEWORK: ISLAMIC FINANCE AND DIMENSIONS OF BANKING PERFORMANCE

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## 4.1 Introduction

This chapter is an extension from chapter three for the purpose of a critical analyse of the religious influences on the determinants of four aspects of performance which were identified in chapter three based on western view. The aim of Islamic and conventional banks is to provide financial services to customers although there are several differences between both banking systems. The differences arise in the areas where conventional banking activities conflict with Islamic law (*Shariah*). Hence, similarities are expected in many financial activities between both banking systems (Zarrouk et al., 2016).

The products of the Islamic banking system are derived from the products of the conventional banking system with innovation that is in line with the Islamic *Shariah* (Samra, 2016; Noman et al., 2015). Islamic *Shariah* prescribes guideline for the whole of mankind and their activities including finance and economics. Islam restricts banking activities that involve *Riba* (interest), *Maysir* (gambling), and *Gharar* (uncertainty) (Zarrouk et al., 2016). As Islamic *Shariah* dictates the activities of Islamic banks, it raises the issues of religiosity and performance. Thus, the central focus of this chapter is to critically discuss the religious influence on the aspects of performance. After the introductory section 4.1, this chapter briefly outlines the baking history in section 4.2. Section 4.3 presents an overview of the banking sector of Bangladesh. The concept of Islamic finance is briefly discussed in section 4.4. Section 4.5 critically discusses the religious impact on the four aspects of performance leading to hypotheses development, and section 4.6 concludes chapter four.

## 4.2 An overview of  Banking History

The word ‘bank’ has been taken from the Italian word ‘Banco' which means ‘Bench' where the ancient money changers would display their coins (Ayub, 2007). A bank is an institution that mobilises funds from investors to investments in trade and business. The practice of banking existed from the ancient time in 1800 century B.C. as the code of Hammurabi includes a law on governing banking operations in Mesopotamia. The tradition of banking started for the safeguard of valuables. Hence, people used to keep their valuable goods such as grain, cattle, precious metal and other valuables in the temples. Valuables were kept in the temple because the building of the temples was strong, it was a place of worship that was believed to protect potential thieves and a continuous stream of visitors made it difficult for any thief activities as it would come into notice by the temple visitors (Schoon, 2008). Therefore, temples used to act as a bank that would lend money to people and the state.  Over the period, such operations have moved from the religious temples to the private banks. Back in the early 575 B.C. the Igibi bank of Babylon spread the financial activities through lending for agriculture and receiving deposits on the basis of signature (Ayub, 2007).

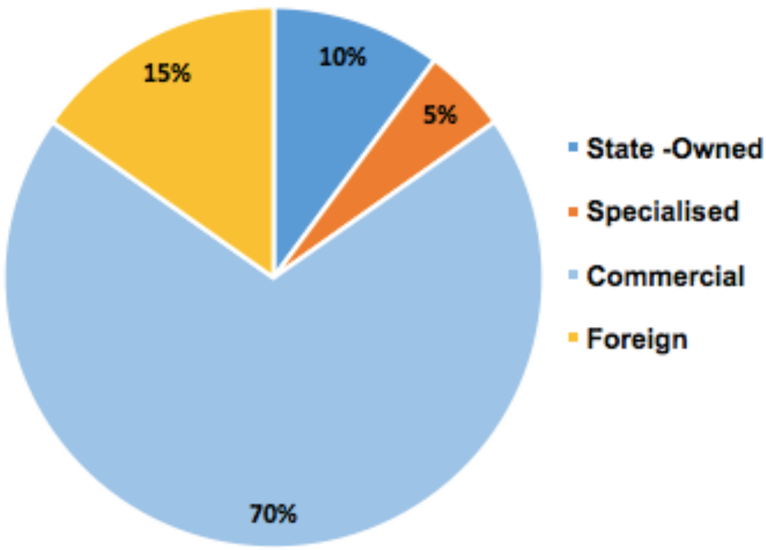
The credit-based banking spread all over the Mediterranean world and grain was used as a way of exchange. Throughout the middle ages until the 13th century, banking operations were mainly carried out by the Church. Later, when commerce started to rise, wealth increased that needed to be reinvested back into commerce by the merchants. Initially, merchants would lend their own money to individuals and government and later, some merchants established merchant banks to lend their own money and the money from the deposit by others (Schoon, 2008).

The first modern bank ‘Bank of Venice’ started in 1157 (Gilbart, 2018). In the modern age, the banks are categorised into two categories which are the commercial bank and the investment bank by the act of Glass–Steagall, 1933. Commercial banks act as an intermediary between the fund providers and the users. The investment banks primary deal with the capital market activities to facilitate finance for the corporation.

### 4.3. An Overview of the Banking Sector of Bangladesh

Bangladesh is a South Asian developing country became independent in 1971. After independence, the banking sector in Bangladesh started its journey with six state-owned commercial banks, three state-owned specialised banks, and nine foreign banks. The private commercial banks were not allowed to be operated in the country until 1982. Prior to the introduction of private commercial banks, the growth of the Bangladeshi banking sector was not noticeable as the main focus of the baking operations was to achieve the government objectives. The country had significant expansion in the banking sector with the introduction of privatisation in 1982 (Ali et al., 2015). There are now a total of 59 scheduled banks in Bangladesh which are regulated by the central bank called Bangladesh Bank. Among 59 scheduled banks, there are six state-owned commercial banks, three specialised banks, forty-one private commercial banks and nine foreign commercial banks (Central Bank of Bangladesh report, 2016).

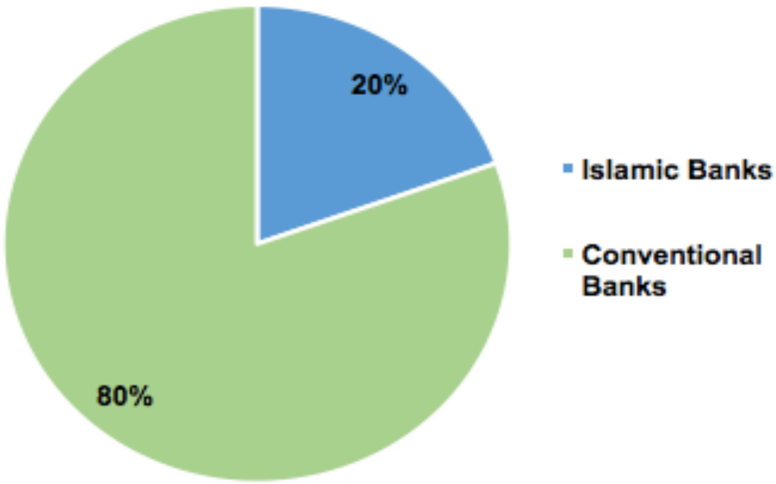
Figure 4.1: Proportion of the Banking Sector in Bangladesh




From the beginning, Bangladesh followed an interest based banking system which was inherited from the country when it was a part of British colony.

Bangladesh is a Muslims majority country (BDH Survey, 2014). In order to fulfil the vast majority of Muslims customers' financial demands, Bangladeshi banking sector has been extended through the introduction of Islamic banking system. The Islamic banking system was introduced in Bangladesh by two professional bodies which are Islamic Economics Research Bureau (IERB) and Bangladesh Islamic Banker Association (BIBA). These organisations practically arrange national and international seminar to encourage local and foreign investors to establish Islamic Bank in Bangladesh (Sarker,1999). The first Islamic Bank in Bangladesh is *Islami Bank of Bangladesh Limited* established in 1983. After introduction, Islamic banks are continuously increasing their market share in a highly dominated conventional banking environment. At present, there are total of eight Islamic *Shariah* based banks and thirty-three conventional banks in Bangladesh. There are ten conventional banks out of thirty-three also provide the Islamic banking services through Islamic window (Mamun, 2014).

Figure 4.2: Proportion of Islamic Banks and Conventional Banks in Bangladesh



## 4.4 An overview of Islamic Finance and Banking

Islam has prescribed how a society to be organised and its activities to be conducted. However, society has not entirely adopted the guideline of Islam. In the modern banking system, interest has become an integral part of economic life. Islam perceives interest as an unfair financial instrument because it is an injustice for both the debtors and the creditors (Uusmani, 2002). In addition, speculation, unconditional rewards (a gain without taking a risk), uncertainty, derivatives are common practice in day to day transactions which are also prohibited in Islam. As a result, Muslims world is concerned and looking for alternative finance that compliances with the Islamic *Shariah*. The development of Islamic finance has been taken place in three phases (Iqbal and Mirakhor, 2011) which have been discussed below:

*Phase 1: Pre-1960s*

In the nineteenth and most of the times of the twentieth centuries, many Muslim countries were governed by the colonial ruler. During these ruling times, Muslims lost their traditions, cultural heritage and values. After the colonial times, Muslims started to regain their identities and lost values in every aspect of life particularly in the economic sphere. In the late of the nineteen centuries, a formal criticism of interest-based banking was started in Cairo, Egypt when the Barclays bank was established to raise funds for the construction of Suez Canal.

In India, the first intention to interest-free banking was shown by south Indian minor Muslim community in the 1890s through a welfare association (Iqbal and Mirakhor, 2011). The association aimed to collect donations and animal skins from the people and give the interest-free loan back to the poor. In addition, an interest-free loan society was established in Hyderabad in 1923.

During the early twentieth century, many areas of conventional economic system conflict with the Islamic values which encourage the need for an alternative economic system. From then, many *Ulamah* (Islamic scholars) and economists started to explore *Shariah*-compliant banking. By 1950, *Ulamah* and economists began to outline Islamic economic models as an alternative to interest-based banking. By 1953, Islamic economists describe *Shariah*-compliant banking in two-tier which are *Mudaraba* (partnership) and *Wakala* (agency) (Iqbal and Mirakhor, 2011).

*Phase 2: 1960s-1980s*

The modern Islamic banking started its journey by the establishment of Mit- Ghamr in 1963 in Egypt (Schoon, 2008). At the same time in Malaysia, Islamic banking began with the establishment of Pilgrim's Saving Corporation where Muslims save money to perform *Hajj* (Pilgrimage) without dealing with the interest that the conventional commercial banks dealt with. The first state-own Islamic bank, the Nasir Social Bank, was established in Egypt in 1971. Then the private initiative was taken in the UAE by establishing Dubai Islamic bank in Dubai in 1975. Islamic Development Bank also was established in 1975 with the objective of promoting Islamic banks around the Muslims countries. Academics and researchers organised the first international conference on Islamic economics in 1976 in Mecca, Saudi-Arabia. Then the first centre for research on Islamic economics was launched at King Abdul Aziz University in Jeddah, Saudi Arabia in 1978. During the periods of the 1980s, Islamic finance began to grow and few countries such as the Islamic Republics of Iran, Sudan, and Pakistan had shown an intention to convert their banking system into *Shariah*-compliant banking (Iqbal and Mirakhor, 2011).

*Phase 3: 1990s- Present*

When Islamic finance gained enough market and introduced innovative products, the policymakers realised the need for regulations and standards, and hence, the Accounting and Auditing Organisation for Islamic Finance Institutions (AAOIFI) was established in the early of 1990s. It was developed further in the capital market through the introduction of an Islamic bond called Sukuks. It was launched successfully in Bahrain, Pakistan, and Qatar. Western banks started the practice of *Shariah*-compliant banking in 1996 by establishing the Citi Islamic Investment bank in Bahrain. Later in 1998, Hong Kong and Shanghai Bank Corporation (HSBC) launched HSBC Global Islamic Finance (GIF) and many more banks operating through Islamic window. As the market for the Islamic finance has grown, the regulatory authority has established a regulatory agency called Islamic Financial Service Board (IFSB) in the

2000s with the help of international monetary fund (IMF). The aim of the IFSB is to deal with supervisory, regulatory, and governance issues (Iqbal and Mirakhor, 2011).

### 4.4.1 Islamic Finance and its Principles

The word ‘Islam’ means peace. The religious perspective of Islam is to surrender oneself with complete peace of mind to *Allah* (God). In Islam, trade and finance should conform to *Shariah* (The Islamic law). The sources of Islamic *Sharia* are the holy *Quran* (the word of Allah which is revealed on Prophet Mohammad (pbuh) between the period 610-632 CE) and *Sunnah (*the practices of Prophet Mohammad [pbuh]) that is clarified by *Ijma* (scholarly consensus) and *Qiyas* (Analogy). As per Islamic belief, the *Quran* is the last and final revelation, and Prophet Mohammad (pbuh) is the messenger of Almighty *Allah* (Ayub, 2007). The definition of Islamic finance is ranged from narrow interest-free banking to broad financial operations that are carried out based on Islamic *Shariah* (Warde, 2000). Islam treats interest as an unjustified increase in wealth. Hence, paying or receiving interest is prohibited in Islamic finance.

Interest is a predetermined fixed rate of return on investment. It is a religious obligation for Muslims to keep away from interest. The Holy *Quran* prohibits paying and receiving interest and permits paying and receiving profit from trades (Iqbal and Mirakhor, 2011; Zaher, and Hassan, 2001). Islam considers interest as an unfair financial instrument because it is an injustice for both the debtors and the creditors. When a debtor suffers a loss, it is unfair to claim a fixed rate of return by the creditors on the debtors, and conversely, when the debtors make a considerable amount of profit then it is an injustice to give a small amount of return to the creditors (Uusmani, 2002). Therefore, Islam perceives interest as an act of exploitation by the wealthy to economically weak people. Hence, the Nigerian president Obasanjo said at G8 summit in Okinawa in 2000 that “all that we have borrowed ... $5 billion and have paid about $16 billion ... still, we owe about $28 billion, that $28 billion came because of the injustice in foreign creditors’ interest rates... worst thing in the world ... compound rate of interest”. Thus, Islam emphasises on a fair and equitable distribution of the resources that meets the needs of economically feeble people (Ayub, 2007).

The general principle of Islamic finance is to adhere to the *Quran* and the *Sunnah* in all economic activities. Based on *Quran* and *Sunnah*, Islamic scholars suggest that all practicing Muslims must avoid the financial transaction that involved *Riba* (interest), *Gharar* (excessive uncertainty in the transaction), *maysir* (gambling) (Ayub, 2007).

Islam encourages trade and discourages a fixed return on investment. Trade outcomes in profit or loss meaning profit cannot be enjoyed without taking the risk of loss. Islamic banks distribute financial risk among the financer (deposits), intermediary (banks), and entrepreneur (investors) whereas conventional banks attribute the financial risk to entrepreneur (Khan, 2010). However, Islamic banks cannot be involved in trading with commodities that are *haram* (religiously prohibited) in Islam such as alcohol production, arms production, and pork production. It is believed in Islam that money has no opportunity cost, therefore, does not need compensation to use it. However, when it is combined with other resources, it becomes capital and deserves a return on profit and loss (El Gamal, 2000). Hence, the basis of Islamic finance is 'justice in exchange' or 'no risk, no gain, (Lewis, 2013). Based on the studies (Ayub, 2007 and Lewis, 2013), the following seven principles Islamic banks should follow as a basic guideline to economic transactions:

1. Participation in Risk: All the participants in the financial transaction need to share the risk in order to gain a profit.

2. Materiality: Financial transactions need to be underlined with real assets. Thus, derivatives and option are not allowed in Islamic finance.

3. Exploitation: Islamic finance confirms that nobody in economic transactions is exploited. It is ensured by adopting participatory financing such as *Musharakah* and *Mudaraba* in the transaction. However, to eliminate the financial risk of Islamic banks, non-participatory financing such as *Murabaha*, *Bai-Salam* is widely used in the transaction (Ayub, 2007; Uusmani, 2002).

4. Unconditional reward: In Islamic finance, to justify the return on investment, some risk must be assumed by the financiers. (Lewis, 2013; Warde, 2000).

5. Gharar (Uncertainty): All transactions or contracts must be specified explicitly and understood by all parties and must remove the uncertainty in the transitions. The transactions will be based on a real asset which means one cannot sell an item without buying it (Warde, 2000).

6. Maysir (speculative transaction): Maysir is a gain without labour (gambling) or possibly hedge funds. Funding should not be provided for the purely speculative purpose (Lewis, 2013).

7. Restriction on investment: Islamic finance does not invest in *haram* (sinful) projects or activities. Any projects or activities such as arms production, alcohol production, and gambling which are harmful to mankind are treated as *haram* in Islam (Warde, 2000; Ayub, 2007).

4.4.2 Modes of Islamic Finance

There are two fundamental ways in which Islamic banks conduct economic transactions that include participatory financing and non-participatory financing. The participatory financing involves all parties in the transaction to the pre-determined ratio of profit and loss share (PLS). The non-participatory financing does not involve any party to PLS, and it follows the markup principal (MUP). The MUP is a mode of transaction where profit is added on top of the investment. The return of the financiers is pre-determined and fixed in this principle. (Ayub, 2007; Hanif, 2011).

***i. Main Modes of Participatory Financing***

The major participatory finance of Islamic banking system includes *Mudaraba*, *Musharakah*, and *Sukuk*. *Mudaraba* is a partnership of capital and skills. One party provides capital and the other parties provide skills and knowledge. Banks collect saving under this principal where customers provide the capital and banks provide the knowledge and skills (Zaher and Hassan, 2001). The word '*musharakah'* means an equity participation contract. In a business context, it is a partnership between entrepreneurs where each partner shares the profit and loss based on their capital contribution or an agreed proportion (Uusmani, 2002). Many Islamic banks raise their paid-up capital under this principle. Sukuk is an Islamic bond or certificate that must be asset backed. It grants investors a share in the tangible assets as opposed to traditional bonds that treat investors as debt holders.

### *ii. Main Modes of Non-Participatory Financing*

The main non-participatory finance consists of *Murabaha*, *Bai Salam, Ijara, Bai Muajjal, and Istisna*. *Murabaha* is a cost plus profit sale. Under this principle, financiers buy products or tangible assets from the request of the buyer and sell it back to the buyer adding desired profit. The percentage of the profit cannot be altered during the life of the contract (Uusmani, 2002). *Bai Salam* is an advanced sale where cash is fully received on the spot and the delivery of goods defers. The permissibility of *Salam* is an exception to the forward sale which is prohibited in Islam. Therefore, specific rules need to be maintained strictly for *Salam* to be permissible. This type of financing is useful for import and export of goods (Uusmani, 2002). *Ijara* is a leasing agreement similar to the operating and finance lease in western finance. The underlying condition in *Ijara* is that an asset must not be used in a way that conflicts with Islamic *Shariah*. The lease payment must be determined in advance to avoid any speculation (Warde, 2000). *Bai Muajjal* is a sale on a deferred payment that uses the same principle of *Murabaha* (Zaher and Hassan, 2001). *Istisna* is an order to manufacture specific goods for the purchaser. Under this principal, price is fixed with the negotiation of the parties. In the case of housing finance, this kind of financing is suitable where financiers construct the house for the buyer (Uusmani, 2002; Zaher and Hassan, 2001).

## 4.5 Performance of Islamic Banks and Hypothesis Development

This section discusses the characteristics of Islamic banks and the religious impact on the aspects of performance.

### 4.5.1 Customer Satisfaction of Islamic Banks

According to Contrast theory (Hovland et al., 1987) of customer satisfaction, a discrepancy between customer's expectations and performance of products or services leads to customer satisfaction or dissatisfaction. A discrepancy occurs when products or services' performance is not in line with customers' needs or expectations. A discrepancy is associated with positive or negative disconfirmation. Positive disconfirmation highly appraises the products or services leading to customer satisfaction whereas negative disconfirmation results in poor products or services evaluation leading to customer dissatisfaction. Similarly, Negativity theory of customer satisfaction presented by Carlsmith and Aroson (1963) believes that a negative discrepancy in products or services' performance compared to expectations will create an adverse reaction in consumer's mind which consequently turn into dissatisfaction. This theory also suggests that when consumers hold strong expectations and in the case of any negative disconfirmation, the consumers respond adversely. As per Festinger's (1957) assimilation contras theory, customers travel within the latitude of acceptable or unacceptable in accordance with their perceptions of products or services' performance. The latitude of customers' preference is perceived by consumers from consumption experiences and expectations. The theory believes that a product or service is considered to be acceptable when its performance falls within the latitude of acceptance, although the product cannot fully meet the expectations. If the performance of a product or service falls within the range of rejection (although the performance of products or services is very close to the expectations), the discrepancy will be exaggerated, and the products or services will be considered as unacceptable.

So, although the above mentioned customer satisfaction theories are distinctive, the common issue raised by these theories is that customers' prior expectations about products or services determine their satisfaction or dissatisfaction.

The customer satisfaction of Islamic banks is influenced by the religiosity of customers and the distinct characteristics of Islamic finance. Customers religiosity and the distinct features of Islamic finance are discussed as follows:

An in-depth review of the existing literature (Abou-Youssef et al., 2015 ; Asma and Masood, 2012; Gayatri and Chew , 2013 ; Esso and Dibb, 2004; Omer, 1992; Farhan and Andriansyah, 2016 ) suggest that religion has a significate impact on customer expectations or attitude that influence their purchase decision process. Abou-Youssef et al. (2015) conducted a study to explore the religious effect on customer attitude towards Islamic banks in Egypt. The study found that religiosity impacts the attitude or expectations of the customers of Islamic banks. Similarly, Asma and Masood (2012) conducted a study in Pakistan to identify the selecting criteria for Islamic banks. The findings of the study claim that the most import factors are religious factors and convenient location that customers consider in selecting Islamic banks. Gayatri and Chew (2013) claim that Muslim customers perceive service quality based on the general Islamic values. They attribute *halal* and *haram*, modesty, honesty, trustworthiness, humanness, and all Islamic obligations to the service quality. According to Esso and Dibb (2004), religious belief dictates customer's decision on what to purchase, when to purchase, and from where to purchase. Omer (1992) surveyed 300 Muslims in the UK to identify the underlying reasons for selecting Islamic banks. The study found religion as a principal motivational factor in selecting Islamic banks to meet their financial demands. Farhan and Andriansyah (2016) identified religious beliefs, media, and self-identity that drive Muslims customers in Indonesia toward *Halal* products.

In addition, there is a close link between religion and satisfaction. In this regards, Inglehart (1990) surveyed 160,000 individuals from fourteen European countries to see the effect of religion on satisfaction in life. The survey reveals that 85 percent of those who visited the church at least once a week was more satisfied compared to 77 percent of those who never went to the church.

However, Amin et al. (2011) have taken the opposite position by investigating the impact of religious obligations, social influences, attitude, government support, and pricing on the intention of using Islamic personal finance. Their study identified three determinants of customer intention which influence customers to use Islamic finance in Malaysia. These determinants are social influences, attitude, and pricing of Islamic personal financing. The impact of religious obligations and government support were found to be insignificant on the intention of using Islamic banking service. Likewise, Haron et al. (1994) and Erol and El-Bdour (1989) claimed that religion is not the primary reason to motivate customers to select Islamic finance.

Although few studies (Amin et al., 2011; Haron et al., 1994; Erol and El-Bdour, 1989) found the religious influence on customer expectations and attitude is insignificant, the majority of the studies (Abou-Youssef et al., 2015 ; Asma and Masood, 2012; Gayatri and Chew , 2013 ; Esso and Dibb, 2004; Omer, 1992; Farhan and Andriansyah, 2016) suggest that customer expectations, perceptions, and attitude are determined by the religiosity of customers. Thus, the customers of Islamic banks expect to receive *shariah* compliant services from their banks. As Islamic banks aim to provide *shariah* compliant services to their customers, customer satisfaction is expected to be higher in Islamic banks compared to its counterpart conventional banks.

Moreover, the distinctive characteristics of Islamic banks also impact on customer satisfaction. For example, Islamic banking system encourages to invest in real assets (tangible assets) and discourages to invest in the financial assets (intangible assets) such as future contracts, option, bond, and derivatives. Financial assets create an artificial economy which has no real value. In contrast, real assets investment creates a real economy. Thus, the profit generation of Islamic banks is relatively more assured than conventional banks. As Islamic banks undertake asset-backed investment, its liabilities are well supported by the real assets for their settlement (Abdi, 2011). Also, the real economy investment gives Islamic banks a positive return when the economy grows. A positive return improves customer's wealth leading to their satisfaction.

Islamic financial system operates within a moral and ethical framework by dividing its operations into *Halal* and *Haram*. *Halal* refers to the things and activities that are permissible in Islam, and these operations are in line with ethics and morals.

Conversely, *haram* includes activities or things that are against Islamic law. Islamic law does not cause detriment to society and conflict with ethical or moral values. For example, Islamic banks cannot invest in the projects such as casino, brewery, tobacco, arms production, and nightclub. It is generally accepted that these projects cause more harm than benefit to society (Ahmad, 2009). The emergence of the ethical and socially responsible investment policies by Islamic banks is a phenomenon to the conventional banking system. These ethical practices of Islamic financial institutions attract customers and increase their satisfaction.

Furthermore, according to the Glorious *Quran* (Chapter 2, verse 280), “if debtors are in financial difficulty, then allow them time until they become solvent to repay the debt. But it was better for you to consider the debt as charity if you only knew”. This verse of the *Quran* urges Islamic banks and Muslims to treat debtors with justice and fairness. In the case of debtors’ financial hardship, the lenders are given two options in Islam. The first option is to extend the debt repayment period. The second option is to consider the debt as a *Zakat* (charity) if the debtors are seemed to be completely unable to repay the debt. Besides, when the debtors of Islamic banks are unable to pay the debt, they are entitled to receive *zakat* which helps them to write off their debt. The conversion of loan into charity is considered as a better option due to two reasons. Firstly, it has conformity with the teaching of Islam that encourage to free the debtors from the liability or the bankruptcy through a fair means. Secondly, it helps Islamic banks to have a better structure in their banking policies by which the spirit of Islam is promoted through products and transactions. Islamic banks cannot be cruel on the debtors for the repayment of debt when they are in financial crisis. They rather be supportive so that the debt holders can manage to repay their debt (Amin et al., 2011). As the debtors of Islamic banks get an extra time to repay their loan or entitled to write off their debt by considering it as a charity, these facilities give them a peace of mind and satisfaction compared to the debtors of conventional banks.

In addition, the empirical studies (Ahmad and Safwan, 2010; Saleh, 2017) suggest that customer satisfaction of Islamic banks is higher compared to conventional banks. Ahmad and Safwan (2010) investigated customer satisfaction of Islamic banks compared to conventional banks in Pakistan. The study found that the perception of customers of Islamic banks about service quality is higher compared to the perception of customers of conventional banks. Similarly, Saleh (2017) conducted a study in Bangladesh to examine the customers' perception towards service quality between Islamic banks and conventional banks. The findings of the study indicate that the customer satisfaction of Islamic bank with regards to reliability, responsiveness, security, and reputation were considerably higher than those of conventional banks.

However, Taap et al. (2011) found the customers are more satisfied in conventional banks compared to Islamic banks in Malaysia in terms of Tangible, Reliability, and Convenience. By contrast, the customers of Islamic banks are more satisfied compared to conventional banks in terms of competence. Similarly, Ali et al. (2009) found that the customers of conventional banks are more satisfied compared to the customers of Islamic banks in Malaysia in terms of Assurance, Reliability, Empathy, and Responsiveness. Besides, The study conducted by Saad (2012) claims that the customers of both conventional and Islamic banks are highly satisfied in Malaysia in terms of competence, responsiveness, and efficiency of service. This study also found that the customers of both types of banking systems are less satisfied with regards to access. Similarly, the study carried out by Lone et al. (2017) in Saudi Arabia found that the customers of both Islamic banks and conventional banks are equally satisfied.

The above discussion reflects that customers are satisfied when their expectations are fulfilled by the products or services. The religious orientation determines customers' expectations towards *shariah* compliance services. As the products and services of Islamic banks are *sharia* complaint, it is expected that customers' expectations are better fulfilled by the products and services of Islamic banks compared to the products and services of conventional banks. Therefore, a hypothesis can be made as follows:

*Hypothesis 1*: *Customers are more satisfied with Islamic banks compared to conventional banks.*

### 4.5.2 Employee Satisfaction of Islamic Banks

Employee satisfaction is closely related to the aspects of motivation. According to Deci and Ryan (2002), motivation is the fundamental factors (extrinsic and intrinsic) of an organisation that impact the behaviour of employees to engage them in organisational activities. Kanfer et al. (2012) view motivation as a set of programmes that lead employees to utilise their skills and knowledge in every possible action of work. Herzberg et al. (1959) motivation theory claim that employee satisfaction depends on extrinsic and intrinsic motivation factors. They reveal extrinsic motivation factors as company policy, working conditions, supervision, relationship with supervisor and colleagues, financial rewards, and promotion. The intrinsic motivation factors, on the other hand, include recognition, achievement, responsibility, the job itself, and advancement.

Maslow's (1954) theory believes that employee satisfaction is determined by their needs. These needs are not static and move from one need to another need. According to Maslow's needs, employees needs range from physiological needs, safety needs, belongingness and love, self-esteem, and self-actualization. Physiological needs are considered as the most basic human needs while Safety needs are the needs that make human to feel safe. The belongings and love needs refer to the sense of connection, and self-esteem needs denote employees' achievement, recognition, and respect. The self-actualization needs are the highest level of employees' needs that refer to employees' full potentials and the ways to achieve these potentials.

Moreover, Pareek (2013) studied the contributory factors of bank employee satisfaction in India. In his study, the main contributing factors to job satisfaction are organisational support, motivators, rewards, job enrichment, and career growth. Baker (2009) identified the main factors of banks' employee satisfaction as people at work, supervision, and promotion opportunity. The study of Mansor et al. (2012) reveals the employee motivational factors within the banking sector which include working environment, rewarding system, supervision and leadership, and the competitive atmosphere.

According to the theories and the studies discussed above, employee satisfaction depends on job satisfaction and motivation. Job satisfaction and motivation are determined by fulfilling employees' needs through monetary rewards, leadership, work ethics, company policy, training, promotion, working environment and conditions, recognition, the job itself, participation, teamwork, and workload.

Religiosity significantly impacts the determinants of employee satisfaction of Islamic banks. It positively influences a number of factors of human resource management practice. Religion has substantial influences on motivation, job satisfaction, leadership, work ethics, and overall human resource management practice (Bhatti, 2016; Aldulaimi, 2016; Ali, 2010; Ahmad, 2009). A brief discussion on each factor in line with religiosity is as follows.

Motivation in Islam has two aspects, spiritual and material (Ahmad, 2009). These aspects intensify the Islamic approach to motivation and make it more comprehensive than the conventional approaches to motivation theories. The conventional approaches to motivation are on the basis of material aspects. The existing motivational theories (for example, Maslow, 1954 and Herzberg et al., 1959) are based on the western view that is not in line with the Islamic *Shariah*. For example, the western view to motivation focuses on the material aspect of employee motivation which includes monetary rewards, recognition, achievement, supervision, and fulfilments of needs. However, the Islamic view to motivation not only emphasises on the material aspect but also on the spiritual aspect of employee motivation. For instance, due to the commitment to follow the Islamic *Shariah,* the existence of the material aspect of motivation cannot motivate the practicing Muslim workforce if the work is not aligned with Islamic teaching. In Islam, Prophet Mohammad (peace be upon him) mentioned that *al-din muamala* (cited in Ali, 2010, p. 694) which mean every effort of human is an act of worship if it is compatible with the religion. As the activities of employees in Islamic banks are in line with the *Quran* and *Sunnah*, these act as dominant motivational factors for them.

The material aspects of the motivational theory (For example, Maslow's theory of needs) includes self-fulfilment or uplifting material standard of living. Muslims employees are not only motivated by the physical motivational factors but also motivated by the divine factors (spiritual aspects) that are their commitments to follow *shariah* principles such as adhering to the concept of *a'mal alsalihah* (righteous deeds) and *ibadah* (worshiping to God). The *Quran* (2:25) says 'And give good news to those who believe and do righteous deeds'. The *Quran* (16:97) also says 'Whoever works righteous… we grand a good life…'. Muslims employees treat work as an *a'mal alsalihah* that is the key to achieve *falah* that means being successful in *dunya* (in this life) and in the *akhirah* (the life hereafter). In addition, the punishment for bad deeds not only be given in the world but also be extended in the *akhirah*. Moreover, Muslims employees consider their work as an *ibadah* as long as it is aligned with the Islamic law. *Ibadah* protects Muslims from *Jahannam* (Hellfire) and ensures the *Jannah* (Heaven). Thus, the notion of *Jannah* works as a positive motivational factor and *Jahannam* as a negative motivational factor for the Muslims employees (Ahmad, 2009). Therefore, employees of Islamic banks find their work as ana'mal alsalihah and *ibadah* that increase their motivation as compared to the employees of conventional banks.

Religiosity is an antecedent of job satisfaction (Chusmir and Koberg, 1988) and it has a positive connection with mental health (Kelly, 1995) and physical health (Miller and Thoresen, 2003). Religious belief develops an individual's personality and person's associated values which are important for positive attitudes to job satisfaction. Religion is closely linked with job attitude, motivation, job satisfaction, and organisational commitment (Bhatti et al., 2016; Ghazzawi et al., 2016; Yousef, 2001). Moreover, the degree of religiosity has been found significantly related to the rank of the work. Religiosity has higher influences on employees with non-managerial role (blue collar worker) than the employees with managerial role (white-collar worker) (Chusmir and Koberg, 1988).

Ghazzawi et al. (2016) stated that four fundamental reasons that influence an employee's job satisfaction. These reasons are firstly, the job itself (Herzberg et al., 1959) secondly, the individual's demographics, values, and personality (Judge and Larsen, 2001; Locke and Latham, 1990) thirdly, the person's overall life satisfaction (Jones 2006) and fourthly, the social influences (Van den Berg and Feij, 2003).

Ghazzawi and Smith (2009) claimed that religion positively influences at least three of these factors. For example, Islam prohibits the dealing with interest. Hence, a religious Muslim who works for conventional banks will not be satisfied as conventional banks deal with interest. In this connection, the job itself is a constraint to job satisfaction. Conversely, a religious Muslims who work for Islamic banks do not have to deal with interest or other forms of financial transactions that are prohibited in Islam. Therefore, working for Islamic banks itself (the job itself) satisfies employees.

Moreover, religion shapes society or community through religious teaching that consequently changes the perceptions of employees towards the values of job. In addition, religious faith impacts the sense of the purpose of life which affects the overall feelings to job satisfaction (Ghazzawi and Smith, 2009).

Indeed, a considerable number of literature reveal that there is a positive correlation between spirituality and job satisfaction and commitment to the job (Ghazzawi et al., 2016; Kolodinsky et al. 2008; King and Williamson, 2005, Barnett et al. 1996; Milliman et al. 2001). Spirituality is a vague concept which can be self-defined in individual term or can be associated with religions (Ghazzawi et al., 2016; Zinnbauer et al.,1997). A number of studies claimed that religiosity impacts the spirituality (Dent et al., 2005; Kriger and Seng, 2005; Giacalone et al., 2005) although few studies suggested spirituality has no relationship with the religion (Zinnebauer and Paragament, 2005; Giacalone and Jurkiewicz, 2003). Many employees in the nonwestern countries believe that religion should be at the heart of the workplace, but this is not the case in the west even though religion is important to them. Employees do not desire to sublimate their religious view at workplace in the countries where they like to cherish their religion at workplace. Hence, to create an inclusive and motivated workforce, managers need to understand the connection between religion and work attitudes. Also, religious people have been found to be happier in their life that positively affect their job satisfaction (Ghazzawi et al. 2016).

Islamic teaching is at the heart of Islamic leadership which is compatible with Islamic beliefs and practices. The conventional leadership theories are based on the western views that conflict with the ideology of Islam. According to Islamic *Shariah*, a leader is not only a leader but also a guardian. Also, a leader is a servant of the followers who guard followers' well-being and guide towards the good deeds. The leader as a guardian protects his/her followers against autocracy and dominance, encourages them toward religious practice, and promote justice. Moreover, in Islam, leadership is an *Amanah* (trust) that arises from a psychological contract between the leader and the followers. The leader needs to hold a strong moral that can be achieved by the spiritual development from the three fundamental areas of Islam which are *iman* (faith on god), *taqwa* (Islamic piety), and *Ihsan* (generosity and goodness). *Iman* refers to the belief in *Allah*. A leader with strong *iman* feels everything (himself and his possessions) belongs to *Allah* that conquers his ideas, thinking, ego, and passion. *Iman* also drives the leaders to be accountable to God of what he does and to believe in the life hereafter. These feelings make the leader more responsive to the roles and continuously emphasise on good deeds. *Taqwa* refers to one's inner consciousness of God that improve religiosity. When a leader achieves *Taqwa*, his/her activities will refrain from unjust but reflect the Islamic principles. *Ehsan* denotes the love of God that motivates individuals to achieve God's pleasure at every step through generosity and goodness (Ahmad, 2009). As Islamic banks operate on the basis of Islamic principles, the leaders in Islamic banks are expected to reflect high morale and justice in employees' supervision compared to the leaders in conventional banks. High morale and justice in supervision motivate employees that ultimately lead to employee satisfaction (Herzberg et al.,1959).

The term 'ethic' originated from the Greek word 'ethos' meaning character or custom. Ethics includes a collection of norms and values as a yardstick to measure the integrity of an individual for work. It describes the right or wrong of a behaviour (Osibanjo et al., 2015). Islamic Work Ethics (IWEs) concentrate on the relationship between the creator and the human being. Islam prescribes the ways to conduct business operations successfully and to form cooperation among employees, employers, and co-workers at the workplace. The IWEs refer to the actions that do not conflict with the principles of Islam (Aldulaimi, 2016), instead, it drives employees to perform works correctly and in a sensible manner within the moral obligations (Riva, 2012). The IWEs not only concentrate on the moral obligations at workplace but also encourage employees to work hard and be committed to the organisation success (Ali,1988).

The IWEs are emanated from Islam that is a code of life for all mankind and applicable for all times and places. The root of work ethics can be found in many places in the *Quran* (27:9; 2:88; 9:34) where dishonesty in business activities is completely prohibited. Muslims believe that human works (or activities) bring rewards and punishment not only at workplace but also in the life hereafter (Ahmad, 2009; Rice, 1999). In this regard, the *Quran* (6:132) says ‘They all are ranked according to their work, and your Lord is aware of what they do’. This verse of the *Quran* commands Muslims to be involved and committed to work and to be ethical at every step of life. Hence, the activities of Islamic banks are considered to be more ethical compared to the activities of conventional banks.

Ethics at workplace is an essential quality of employees which enable them to be satisfied with their job leading to organisational success. Flynn et al. (1994) claimed that among the necessary qualities or characteristics of a managerial employee, work ethic is the most important quality. An absence of this quality reduces job performance that ultimately leads to corporate failure (Yandle, 1992). An extensive review of literature in the field suggest that there is a strong link between work ethics and job satisfaction (Khan et al., 2015; Yousef, 2001; Koh and El'fred, 2001; Viswesvaran and Deshpande, 1996). Khan et al. (2015) claimed that IWEs are positively associated with job satisfaction and involvement. Similarly, Yousef (2001) identified that the IWEs directly impact job satisfaction and organisational commitment where national culture does not moderate this relationship. Likewise, the IWEs differ across education, ages, work experiences, organisational types, national culture, and ownership. Moreover, Koh and El'fred (2001) stated that job satisfaction is closely associated with the top management support along with ethical behaviour and ethical culture of an organisation. Furthermore, Viswesvaran and Deshpande (1996) claimed that unethical behaviour reduces the level of job satisfaction in an organisation.

Religion has substantial influences on human resource management (HRM) practices. All over the world, about 85 percent of people follow at least some form of religious belief in which 82 percent stated that religion has an important part of their daily life (Sedikides, 2010). Islam influences the HRM practices by emphasising on *Al-sidq* (honesty), *Al-Amanah* (trust), *Al-adl* (fairness and justice in dealing with employees), and *Shaura* (consultation) in decision making (Mellahi and Budhwar, 2010). The foundation of the HRM practices in Islamic perspective is based on the philosophy of the *Ehsan* that refers to generosity and goodness in all sorts of activities and behaviours at personal or organisational level. *Ehsan* (generosity) comprises of mercy, goodness, justice, tolerance, forgiveness, and attentiveness. These superior characteristics of HRM practices can be linked to the Prophet Mohammad's (peace be upon him) statement *al-din muamala* (It means religion is found in the way of dealing with other people). *Ehsan* also deals with interaction and relationship, inclusion, and race and class (Ali, 2010).

In terms of interaction and relationship, The *Quran* (49:13) says, "The noble among you in the sight of *Allah* is the best of you in conduct." In addition, the Prophet said, "Feed poor and give salutation to all you know and you do not know". Hence, good relationship and interaction with colleagues and supervisors (vertical and horizontal relationship) are expected at the workplace with justice and equality. In this regard, Herzberg et al. (1959) emphasised on the relationship with supervisor, one of the hygiene factors that increase job satisfaction leading to employee satisfaction.

In terms of inclusion, race, and class, The *Quran* (49:13) says 'O people, we created you from a male and a female (a pair) and made you into nations and tribes that you may know each other'. Prophet mention in this regard, '… Arabs have no superiority over non-Arabs and non-Arabs have no superiority over Arabs. Likewise, a white has no advantage over black nor a black has an advantage over white except by piety and good action. Hence, everyone has equal right and opportunity in Islam that flourish the Islamic HRM practices leading to employee satisfaction.

Islam emphasised on the recognition and reward at workplace. The *Quran* (46:19; 27:90; 37:131) mentioned repeatedly "They are ranked based on what they have done, and he will repay them for their deeds in full; Will you expect any reward except what you deserve for your deeds?; thus, certainly we reward those who do the right." In this regards. Besides, the presence of *Ehsan* in HRM practices leads employers and employees to treat each other with compassion, responsibility, and sincerity in addition to what is mentioned in the employment contract and available in the work boundaries.

In the regards the *Quran* (2:177) says "…Fulfil the contracts or promise when they are made…".

The above discussions suggest that religiosity has a considerable positive impact on the aspects of job satisfaction and motivation that include leadership, work ethics, relationship with colleagues and supervisors, recognitions and the other human resource management practice. The religious influences on the aspects of job satisfaction and motivation lead employees of Islamic banks to have a positive attitude or feelings towards the job. However, the study conducted by Dooty et al. (2015) in Bangladesh found employee satisfaction is the same in both Islamic and conventional banks.

As Islamic practice in HRM provides employees with motivation and job satisfaction, a hypothesis can be made as follows:

*Hypothesis 2*: *Employees are more satisfied with Islamic banks compared to conventional banks.*

#### 4.5.3 Internal Business Process of Islamic Banks

The internal business process includes the activities that organisations carry out to meet their customers' expectations. It emphasises on those critical factors that impact customer satisfaction (Buavaraporn and Tannock, 2013). Kaplan and Norton (2001) divided the business process mainly into four categories which are customer management process, operational management process, innovation process, and regulatory and social process. Islamic banks' operations are similar to all other financial institutions; the only difference is that its products and services are designed according to Islamic law. As Islamic law is adopted in designing Islamic banks' products and services, its internal business process will differ from its counterparts conventional banking. Islamic law has a substantial impact on the four components of the internal business process which are discussed as follows:

Banks are service-oriented institutions that provide financial services to people. The customer management process of banks focuses on the value creation in services and financial products for customers by improving the qualities of products or services.

It also concentrates on how to keep the existing customers happy and attracts new customers by improving the limitations, introducing new products and services, and establishing a relationship with customers (Kaplan and Norton, 2001). These activities are ensured by a robust customer management process. For an effective and efficient customer management process, employees play the vital roles (Pareek, 2013). When the customer management process is effective and efficient, it fulfils customers' needs and expectations leading to customer satisfaction and profitability. Hence, employees have been considered as the foundation of superior performance (Kaplan, 2009; Kaplan and Norton, 2004).

One of the most crucial drivers of employees' performance is spirituality (Karakas, 2010). There is a debate about the impact of religiosity on spirituality. On the one hand, scholars (For example, Zinnebauer and Paragament, 2005; Giacalone and Jurkiewicz, 2003) believe that religiosity has no impact on spirituality and it can be identified and defined independently. On the other hand, scholars (For instance, Kriger and Seng, 2005; Giacalone and Jurkiewicz, 2005; Dent et al., 2005) claimed that religiosity has an impact on spirituality and it should be defined in the context of religion. Moreover, spirituality and religiosity can be used interchangeably although it may or may not be involved with the organised religion (Zinnbauer et al.,1997).

The religious values or beliefs have a considerable direct and indirect impact on the activities at workplace including job satisfaction (Mellahi, and Budhwar, 2010). Karakas (2010) believes that spirituality increases the performance of employees by improving their well-being and quality of life, making them purposeful and meaningful at work, and providing them the sense of community and interconnectedness. Similarly, Fry (2005) claimed that spirituality increases the performance of an organisation. In addition, Al-Hosaini and Sofian (2015) concluded that spirituality provides intrinsic motivation to employees and improves their productivity and effectiveness that consequently improve organisational performances.

As religious belief at the heart of the activities of Islamic banks, it attracts the practicing Muslims to work for Islamic banks or the practicing Muslims trend to work for Islamic banks due to their religiosity. Hence, it can be assumed that the employees of Islamic banks have greater religiosity (or spirituality) than the employees of conventional banks. The higher religiosity or spirituality of the employees of Islamic banks improve productivity and effectiveness that ensure to form a robust customer management process.

Employees' religious orientation impacts operation management process. The purpose of the operation management process is to achieve operational excellence by producing effective and efficient products and services and by establishing a sustainable relationship with the stakeholders (Kaplan and Norton, 2001). As mentioned earlier, employees are the key elements of an organisation to bring success. Employees' motivation and commitment to work are enhanced by the influence of religiosity. Besides, religiosity drives the employees to perform their fiduciary duties that guarantee a robust operation management process.

Moreover, Islamic principles underpin the products and services design of Islamic banks. Therefore, its operations are distinctive from the operations of conventional banks. The mode of financing in Islamic banks includes the participatory and non-participatory financing (Ayub, 2007). Participatory financing is based on the profit and loss sharing principle in the form of *mudarabah* and *musharakah*. Because of the nature of participatory financing, Islamic banks not only enjoy the profit from the investment, but also share the loss. Thus, when Islamic banks generate a profit or a loss, it is distributed among the financiers as per the *mudarabah* or *musharaka* principle. This participatory principle protects Islamic banks from being insolvent at the time of operational losses. In addition, Islamic banks reward the financiers by paying extra profit or dividend when they make a profit. Hence, the profit and loss sharing policy gives Islamic banks a great balance in its operations which is not possible in the case of the conventional banking system. Besides, to reduce the risk of sharing loss from investments, Islamic banks widely use the non-participatory (markup) mode of financing (Uusmani, 2002). The opportunity to use the participatory and non-participatory financing makes the internal process of Islamic banks robust compared to conventional banks.

Furthermore, in every investment decision, Islamic banks assess the suitability of every investment and require a physical asset for the investment to be valid. It is because Islamic law does not permit to invest in the vacuum (it means, derivatives activities). In addition, Islamic banks avoid *Gharar* (uncertainty) in all transactions and contracts. Therefore, the transactions and contracts must be understood by all parties (Ayub, 2007). These principles of Islamic banks create a real economy and strengthen the operation management process.

The purpose of the regulatory and social process is to be a good citizen by minimising the organisational negative impact on society (Kaplan and Norton, 2001). A robust governance ensures that an organisation operates for the welfare of society and the stakeholders. In terms of conventional banks, they are regulated by the state's regulatory authorities such as central bank and other financial authorities. However, Islamic banks are regulated and monitored not only by the state financial authorities but also by an extra regulatory body called *Shariah* supervisory board (SSB). The members of SSB are prominent Islamic scholars and financial experts. The SSB is separated from the board of directors but works along with them. The roles of the member of SSB is to monitor and control the operations of Islamic banks by using *Shariah* law. The SSB ensures Islamic banks' operations are in line with ethical norms and social obligations. The SSB also supports Islamic financial institutions to transform convention financial services into Islamic financial services with innovation (Samra, 2016). As part of the *Shariah* requirements, Islamic banks do not invest on any project that is harmful to society and mankind, for example, alcohol production, arms production, and gambling. The *Shariah* requirements make the regulatory and social process of Islamic banks stronger that subsequently help to meet the demands of the stakeholder well.

Innovation process aims to gain a competitive advantage through research and development of products and services. This process attracts new customers and makes existing customers loyal to banks (Kaplan and Norton, 2001). Innovation is the lifeblood of an organisation and without it, organisations will not grow, and gradually die (Chapra, 2008). Islamic finance is relatively a new concept in the conventional financial system which provides financial services in accordance with *Shariah* law.

Hence, Islamic banks need to continuously develop and innovate new financial instruments to meet the demand of the emerging financial market.

The financial instruments of Islamic banking system are considered as an innovation to conventional banking system. The recent innovation to the Islamic banking system is a profit rate swap that is based on the real asset. *Shariah*-compliant profit rate swap removes the use of conventional interest rate and applies the principles of either commodity *murabaha* or *waad* (unilateral promise) *murabaha* (Al-Salem, 2009). Moreover, another development in the Islamic financial market is *Sukuk*. *Sukuk* replaces the use of conventional bond by complying with the *Shariah* requirements. As *Sukuk* is a real asset-backed financing, the investors indirectly deal with the real assets, and not just with a piece of paper. Before the introduction of *Sukuk*, Islamic financial institutions used to invest their liquid reserve into the inter-bank market. The return on this investment was relatively low due to the smaller size of the market and the high charges (Wilson, 2008). *Sukuk* has broadened up the availability of the Islamic finance instruments at various level in the local market and has met the requirements of the investors (Al-Salem, 2009). Additionally, *Sukuk* shares the risk with the involved parties that reduces the issuers' default risk in the case of difficulties. In sovereign *Sukuk* pricing, the real economic variables such as gross domestic product (GDP) growth is used instead of interest benchmark. Because of this pricing policy, when the GDP is increased, the government can pay more reward to its holders and less reward when the GDP's growth is decreased. The GDP benchmark pricing policy has made the *Sukuk* more favourable than the conventional bond (Wilson, 2008). The risk characteristics and the pricing of *Sukuk* are considered as an innovation in Islamic finance.

Moreover, the world has faced financial crises repeatedly. The changes made by the conventional banking system could not provide a remedy for the crises because the existing financial system is not capable enough to solve the crisis. Therefore, an innovation is needed in the financial system which can be achieved by adopting the principles of Islamic finance. There were many reasons behind the financial crises. However, the main reason for the crises was excessive and imprudent lending. The conventional banks cannot be blamed for their excessive lending simply because the fundamental objective of a bank is to maximise profit through lending. The blame should be given to the banking system that allows convention banks to lend excessively. The excessive lending raises the assets price and increases the consumptions and speculative investment artificially. The excessive lending was possible due to high leverage (debt capitalisation) that increases the financial risk of the institutions due to their obligations to the interest payment. When banks fail to collect loan repayment with interest, they struggle to settle their obligatory interest payment. In the severe case, these banks become the default and create a financial crisis (Chapra, 2008).

Furthermore, the world financial crises would not have occurred if the principles of Islamic banking had applied. This is because the Islamic banking principles would not allow the excessive lending as every lending is backed by a real asset. In this regards, Professor Rogoff (1999) of Harvard University says, "In an ideal world equity lending and direct investment would play a much bigger role… and with a better balance between debt and equity, risk-sharing would be greatly enhanced and financial crises sharply muted." Additionally, Islamic banks collect fund based on the profit and loss sharing principle (*mudarabah* and *musharaka*), therefore, the operational losses can be transferred at the time of financial difficulties. Besides, Islamic banks' capitalisation is not highly leveraged as it is based on the equity participation, it means the fund providers cannot receive the gain without taking the risk. Also, speculative activities are not allowed in Islamic finance that protect the economy to be extended artificially.

In addition, a number of empirical studies have been conducted based on the aspects of internal business process which can be brought into consideration to understand the effectiveness and efficiency of Islamic banks compared to conventional banks.

For example, Smail and Rahim (2013) conducted a study in Malaysia to investigate the productivity of Islamic banks and conventional banks for the period 2006-2009. The study claims that Islamic banks have higher productivity compared to conventional banks. Similarly, Abbas et al. (2015) studied the efficiency and productivity of Islamic banks and conventional banks in Pakistan over the period 2005-2009. The findings of the study reveal that the productivity and efficiency of Islamic banks compared to conventional banks increased for the period 2005- 2006 and 2008-2009, but decreased in 2007. Nosheen and Rashid (2019) compared the cost efficiency, credit quality, business dynamic, and stability between Islamic banks and conventional banks from 20 Baltics countries over the period 1995-2014. The findings of the study suggest that Islamic banks outperformed conventional banks in terms of credit quality, stability, and capitalisation. However, Islamic banks have been identified as less cost efficient. Also, Aziz et al. (2016) examined the performance of Islamic banks compared to conventional banks in Pakistan for the period 2006-2014 based on efficiency, returns, asset quality, liquidity, deposit and capital. The findings of the study indicate that Islamic banks have higher efficiency, returns, and asset quality. However, conventional banks perform higher in terms of investment, advances, liquidity, deposit and capital. Ahmad and Luo (2010) measured the efficiency of Islamic banks and conventional banks in Germany, United Kingdom, and Turkey over the period from 2005 to 2008. The results of the study claim that Islamic banks are technically more efficient compared to conventional banks.

Based on the above discussions of religious influences on the aspects of internal business process and the findings from the empirical studies, it can be said that the internal business process of Islamic banks is more effective and efficient compared to the internal business process of conventional banks. Therefore, a hypothesis can be made as follows:

*Hypothesis 3*: *Internal business process is more robust in Islamic bank compared to conventional banks.*

4.5.4 Financial Performance of Islamic banks

According to Kaplan and Norton (1992), the financial performance of an organisation depends on how it performs on non-financial aspects of performance. The non-financial aspects consist of employee satisfaction, internal business process, and customer satisfaction. As mentioned earlier, when organisations have a motivated workforce, the internal business process becomes robust. When the internal business process is vigorous, it meets customers’ expectations well, and consequently, customers become satisfied. When customers are satisfied, it reflects on a higher financial return. However, Norreklit (2000) argued that the relationship among the four aspects of performance is not causal, but logical.

Kaplan (2009) believe that employees are at the heart of an organisation for superior performance. The literature (For example, Bhatti, 2016; Aldulaimi, 2016; Ali, 2010; Ahmad, 2009) in the field of job satisfaction claimed that religiosity impact employees' job satisfaction and motivation. The Muslims employees work based on the notion that every human effort is an act of worship if it is in compliance with Islamic law (Ali, 2010). The *Quran* (16:97) says "Whoever works righteous… we grand a good life…". The *Quran* (6:132; 27:9; 2:88; 9:34) also mentions through many verses about the work ethics that direct Muslims employees to be committed to their responsibilities at work. Hence, the employees who work for Islamic banks are believed to have high moral and motivation. The high moral and motivation create an effective and efficient business process to deliver the required services to customers leading to superior financial performance.

Due to Islamic *sharia* governance, Islamic banks' operations are different from that of conventional banking system. The employees' religiosity and the distinct characteristics of Islamic banks influence financial performance in the following ways:

During the global financial crisis of 2007-2008, conventional banks faced enormous losses while Islamic banks survived (Khediri et al., 2015; Hasan and Dridi, 2010). The reason for Islamic banks to survive is the nature of asset-backed financing (Parashar, 2010). This particular nature restricts Islamic banks to imprudent and excessive lending which brought the crisis for the conventional banks (Hasan and Dridi, 2010; Chapra, 2008). Asset-backed lending creates a real economy. A real economy contributes to the real growth in the gross domestic product (GDP) and inflation that dictate the banks' profitability. When the economy has an expansion, the demand for the investment is increased which consequently increase the profit margin of Islamic banks. However, the opposite may happen in the case of a downturn economy (Dar and Presley, 2000).

As the Islamic *Shariah* restricts Islamic banks to pay and receive the interest, they adopt *mudaraba or musharaka* (profit and loss sharing) or *murabaha* (markup) agreement in its all transactions. Islamic banks accumulate the funds based on the profit and loss sharing agreement. As per this agreement, Islamic banks remunerate investors when they make profit and transfer loss or no profit when they make losses. However, the majority of Islamic banks in practice do not follow PLS agreement in investments although it exists in theory. About less than twenty percent of Islamic banks' investment worldwide in 1996 followed the PLS. Islamic banks tend to invest based on *murabaha* agreement or commissioned manufacturing. Markup is suitable for short-term financing that most of the Islamic banks adopt. Moreover, markup ensures profit generation from the investment projects unless the projects become bankrupt. Conversely, in the case of fund collection, Islamic banks use the PLS contract that enables them to transfer losses to the investors. Investment based on markup and fund collection based on the PLS agreement gives Islamic banks with an assurance to profit generation. This is because they do not have a fixed commitment to the fund providers due to PLS principle. The favourable use of the PLS and the markup in financing enable Islamic banks to survive in the financial disaster and subsequently perform superior compared to conventional banks (Dar and Presley, 2000). Moreover, when conventional banks invest in a project, they do not hold the ownership of the project. The ownership belongs to the customers (the fund users). In the case of the project failure, conventional banks treat that investment as non-performing or bad debt. However, this is not the case in Islamic finance. When Islamic banks invest in a project, the ownership of the project remains with Islamic banks as per the equity participation. Therefore, in the case of project failure, Islamic banks still own the projects along with the fund users. Additionally, Islamic banks and the fund users take the necessary steps to restructure the project and have a better resource utilisation (Youssef and Samir, 2015).

*Maysir* (speculation) is not allowed in Islamic finance because it limits the financial activities to be carried out in the real economy. Excessive speculation can lead to a bubble burst, for example, the great depression in the 1930s and dot-com bubble for the period of 1995-2001 (Galbraith and Hale, 2003). By limiting the speculative transactions, Islamic finance provides a more stable financial system and real economy as compared to the traditional banking system. The global financial crisis that started in 2007 paralysed the economy of many developed countries such as the

USA, the UK, and Europe. Trillions of dollars of taxpayers' money were used to bail out the banks. Millions of people lost their retirement investment and wealth due to a steep fall in the equity values. Speculation in derivatives activities, interest, and excessive debt leverage were the key responsible factors for the financial crisis (Abdi, 2011; Ahmed, 2010). Compliance with the principles of Islamic banking would prevent the financial crisis as the principles of Islamic banking do not allow those factors to be exercised in the transactions which were responsible for the financial disaster. Besides, as Islamic finance prohibits excessive speculation and gambling, it reduces the moral hazard of Islamic finance leading to lowering the credit risk compared to conventional banks.

In addition, Islamic banks collect funds mainly from two sources that include investment deposit and demand deposit. The investment deposits are gathered on the basis of profit and loss sharing, and demand deposits are collected based on markup principle (Bourkhis and Nabi, 2013). Demand deposit yields no return. Hence, it reduces the funding cost of Islamic banks compared to conventional banks which increase Islamic banks' profitability. In this regard, Hassoune (2002) stated that the reason for the low funding cost of Islamic banks is due to their benefit from market imperfection that means the non-remunerated deposits. Besides, due to the nature of the profit and loss sharing principle of investment deposits, when Islamic banks encounter a bank-specific crisis (operational risks) or a downturn economy, the risk is automatically shared with the investment deposits (the fund providers). This provides Islamic banks with a greater ability to take the risk and fewer chances to fail or run out of funds. Moreover, Islamic banks maintain a check and control on its every investment decision providing them with a greater discipline leading to sustainable investment and a stable economy (Ahmed, 2010). Furthermore, Khan (1996) pointed out that the balance sheet of Islamic banks has no fixed liabilities and customers' deposits are treated as share. This nature increases the stability of Islamic banks to absorb the losses. Thus, Islamic banks are less likely to be a default. However, in the case of conventional banks, any reductions or losses in the assets side result in a reduction either in reserve or in the capital. Therefore, it creates instability for the conventional banks leading to bankruptcy (Ben Khediri and Ben-Khedhiri, 2009).

The study conducted by Khediri et al. (2015) suggests that Islamic banks have lower credit risk compared to conventional banks. It is because Islamic banks mobilise the funds based on *mudaraba* and *musharakah* which are based on the principle of profit and loss sharing. It has been mentioned earlier that Islamic banks raise fund through demand deposit and investment deposit. The depositors have no guarantee to receive a return (principle and remunerations) from the investment deposit due to the profit and loss sharing agreement. Hence, any loss that reduces the assets of Islamic banks subsequently reduces the liabilities, it means transfers the credit risk from the assets side to the liabilities side of the balance sheet. Also, Abedifar et al. (2013) claim that the depositors of Islamic banks have less intention to profit earning compared to the depositors of conventional banks. It is due to a lack of understanding of Islamic *Sharia*, few customers of Islamic banks still believe that any reward from Islamic banks is *Riba* and unwilling to receive it. As a result, they do not switch the bank when Islamic provide them with less profit or even no profit at the time of inferior performance. Moreover, religiosity even prepares depositors to pay rent to receive *Shariah*-compliant services from Islamic banks. These characteristics of Islamic banking system and customers' religiosity lead Islamic banks to a higher financial performance.

Moreover, Aziz et al. (2016) studied the performance of Islamic banks in Pakistan for the period 2004-2014 based on ROA, ROE, asset quality, liquidity, investment, deposits, and capital. The findings of their study suggest that Islamic banks perform higher in ROE, ROA, and asset quality while conventional banks perform higher in investment, liquidity, deposits, and capital. Similarly, Khan et al. (2017) measure the performance of Islamic banks compared to conventional banks in Pakistan based on financial ratios. The findings of the study indicate that the performance of Islamic banks is higher compared to conventional banks in terms of profitability, risk, efficiency, and liquidity management. However, the performance of conventional banks is higher in asset quality. Siraj and Pillai (2012) studied in the GCC region for the period from 2005 to 2010 based on financial ratios. The study found that Islamic banks perform higher in two key ratios ROA and ROE compared to conventional banks. Erol et al. (2014) examined the performance of Islamic banks compared to conventional banks in Turkey. The results suggest that Islamic banks have higher profitability and asset management compared to conventional banks.

However, Johnes et al. (2014) investigated the performance of Islamic banks compared to conventional banks using DEA from 14 countries selecting 207 conventional banks 45 Islamic banks for the period from 2004 to 2009. The findings of the study suggest that Islamic banking system is less efficient compared to conventional banking system. Likewise, Srairi (2010) examined the cost and profit efficiency of conventional banks compared to Islamic banks in GCC countries for the period from 1999-2007. The findings of the study show that conventional banks are more efficient compared to Islamic banks in both cost and profit.

The above discussion reflects that despite few studies claim that Islamic banks are inefficient, the majority of studies highlight the superior financial performance of Islamic banks. Additionally, employees' religiosity, a lower credit risk, profit and loss sharing or markup principle, asset-backed financing, reduced funding cost, and other distinctive characteristics of Islamic banking system contribute to superior financial performance for Islamic banks compared to conventional banks. Therefore, it can be hypothesised as follows:

*Hypothesis 4*: *Financial performance is higher in Islamic banks compared to conventional banks*.

## 4.6 Conclusion

Islamic banking is a concept that provides conventional banking services Islamically to fulfil the ongoing financial demands of Muslim customers. As the religious belief underpins the operations of Islamic banks, it raises the issue of religious influences on the aspects of performance with regards to customer satisfaction, employee satisfaction, internal business process, and the financial performance.

Religion has a significant impact on customer satisfaction of Islamic banks. As per customer satisfaction theories discussed in chapter three, section 3.2.3, customer satisfaction depends on customer’s expectations, perceptions, and attitudes towards the attributes of product or service. These determinants of customer satisfaction are substantially influenced by the religiosity of customers and the distinct characteristics of Islamic banks. As Bangladesh is a Muslim majority country and Islamic banks fulfil the expectations of Muslim customers better compared to conventional banks, this indicates the higher customer satisfaction of Islamic banks compared to its counterpart conventional banks.

Employee satisfaction is determined by the factors identified by the classical motivation theories (For example, Herzberg et al., 1959 and Maslow, 1954). A considerable literature suggest that religion has a positive correlation with the determinants of employee satisfaction. As the majority of the employees of Islamic banks are Muslims in Bangladesh, it is expected that employee satisfaction will be higher in Islamic banks compared to conventional banks.

Religion has a substantial influence on internal business process. An internal business process consists of innovation process, customer management process, operation management process, and social and regulatory process. Employees play the key roles in these aspects of internal business process and considered them as the foundation of performance. One of the most important drivers of employees’ performance is spirituality that is highly influenced by religiosity. Moreover, religion has a positive impact on human resource management practices that ensure a robust internal business process. Furthermore, the excessive lending that was the cause of the world financial crisis is not possible in Islamic banking due to the asset-backed financing principal of Islamic banks. Also, due to equity participation, Islamic banks' capitalisation is not highly leveraged. Because of employees' religiosity and the distinctive characteristics of Islamic banks, it is predicted that the internal business process of Islamic banks will be robust compared to conventional banks.

Religion also impacts the financial aspect of performance. Paying or receiving of interest is not allowed in the Islamic banking system. Thus, Islamic banks adopt the profit or loss sharing and the markup principle in financial transactions. On one hand, to mitigate the financial risk in investment, Islamic banks adopt the markup principle rather than the profit and loss sharing principle. On the other hand, Islamic banks raise fund based on the profit and loss sharing principle. This provides Islamic banks with an opportunity to transfer the operational loss to fund provides which consequently increase the profit for Islamic banks. Moreover, the financial aspect of performance depends on how an organisation performs on the non-financial aspects of performance such as customer satisfaction, employee satisfaction, and internal business process. It has been discussed that religion has a positive impact on the aspects of non-financial of performance. Hence, the financial performance of Islamic banks is forecasted to be higher compared to conventional banks

This chapter has comprehensively discussed the religious influences on the four dimensions of performance. This chapter also theoretically indicates the performance between Islamic banks and convention banks. The next chapter discusses the methodology to conduct the current research.

# CHAPTER FIVE

# RESEARCH METHODOLOGY

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## 5.1 Introduction

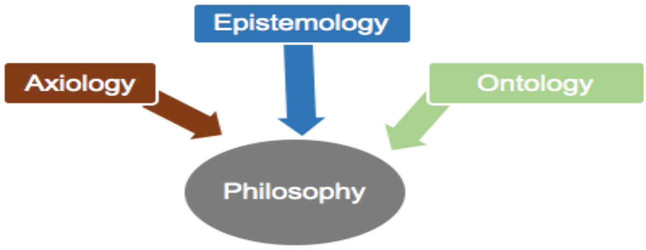
In the previous chapters, this research looked at the existing knowledge in the area of performance measurement that enables the researcher to build a conceptual framework on performance measurement. Based on the conceptual framework, this research devises the research questions and the objectives that are mentioned in chapter one. This chapter concentrates on the methodology for the current research in order to collect and analyse the data to meet the research objectives and to answer the research questions.

This chapter has been arranged in seven sections including the introductory section 5.1 that briefly describes the chapter. In section 5.2, the philosophical position of the researcher has been discussed. Then the sections 5.3, 5.4, and 5.5 discuss the research approach, research design, and research strategy respectively. Afterwards, section 5.6 presents the research methods that include research instruments and their administration, sampling, data collection and data analysis methods, and validity and reliability. Prior to concluding this chapter, section 5.7 discusses the research limitation. Finally, section 5.8 concludes the chapter.

## 5.2 Research Philosophy

A research is underpinned by a set of beliefs or assumptions (Figure 5.1). The assumptions about human knowledge and nature of realities encounter in a research impact the researcher's understanding of the research question, methods, and analysis of the findings. Hence, research philosophy can be described as the researcher's assumptions in which the research views the world (Saunders et al., 2012).

Figure 5.1: Components of Philosophy

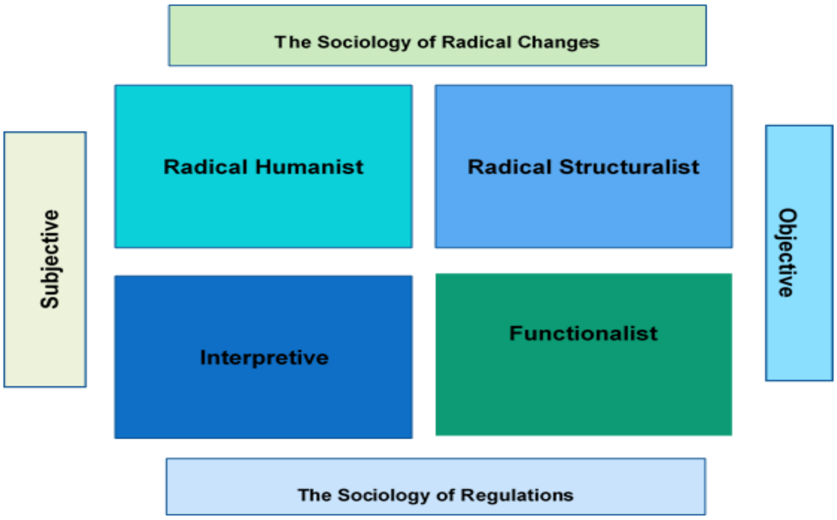



Source: Concepts obtained from Saunders et al. (2012); Bryman and Bell (2011)

Research philosophy can further be explored through the term ‘research paradigm’ (Saunders et al., 2012). Kuhn (1970) was highly influential and first to use the term ‘paradigm’. Paradigm is the researcher’s way of thinking or viewing the world. It is also considered as framework that dictates the researchers’ understanding in conducting a research (Gioia and Pitre,1990; Hopper and Powell, 1985). Saunders et al. (2012.p 140) define “a paradigm is a way of examining social phenomena from which particular understandings of these phenomena can be gained and explanations attempted”. In conducting a research, researchers adopt one or more than one paradigm that dictates the research methods (Kuhn,1970).

From a sociological standpoint, Burrell and Morgan (2017), categorised paradigm into four dimensions (Figure 5.2) which are a radical humanist, interpretive, radical structuralist, and functionalist. Although these paradigms are divided into four approaches, Burrell and Morgan suggest these assumptions are about the nature of science in which each approach falls in the key dimensions of either objectivism or subjectivism. In addition, these two dimensions have a root with the sociological view of ‘radical change’ and the ‘regulation’.

Figure 5.2: Burrell and Morgan' Four Paradigms




Source: Burrell and Morgan (2017)

The term 'sociology of regulations' refers to theories that provide an explanation of social matters by emphasising the underlying unity and cohesiveness of society. The sociology requires regulations for human affairs and trend to understand why society is maintained as an entity. It also explains why a society trends to stay together rather than be apart. The theorists in the sociology hold the notion of status quo and actuality. On the other hand, the term 'sociology of radical change' refers to theories concern to seek an explanation for the radical change, mode of domination, and structural conflict. The sociology trend to emancipate individual from the structure that limits his/her potential for the development. It also looks for what is possible instead of what it is, what are the alternatives instead of accepting the status quo (Burrell and Morgan, 2017).

As per Guba (1990) and Kuhn (1970), a philosophy or paradigm is determined based on the components of ontology, epistemology, and axiology.

Ontology is a branch of metaphysics which comes from the Latin word 'Ontologia' and the ancient Greek word that means 'to be'. In philosophy, ontology refers to the study of existence and the nature of reality. In research, ontology is the beliefs or assumptions of a researcher about the nature of reality (Bryman and Bell, 2011).

Researchers assume at every stage of the research which shape their understanding to research question, methods and the interpretations of data (Saunders et al., 2012). The ontological beliefs of the researchers divided them into two categories which are objectivism and subjectivism (Saunders et al., 2012; Bryman and Bell, 2011). Burrell and Morgan (2017) suggest that the assumptions of each paradigm (Figure 5.2) can be presented either on subjectivism or objectivism.

Objectivism can be defined as “an ontological position that asserts that social phenomena and their meanings have an existence that is independent of social actors” (Bryman and Bell, 2011, p 21). Objectivism has a root in philosophy called realism. A realist believes that there is single truth exist which is context-free and cannot be changed. The truth can be discovered with objective measurement (Killam, 2013). For example, an organisation is an intangible object. It has its unique rules and regulations by which organisational activities are carried out. People are recruited in a different job and in a different hierarchy. An organisation has its mission statement with many other objectives. The features of the organisation are variable from organisation to organisation but it is true that each organisation has its own reality which is external to its people who deals with it. Organisations instruct its people on what to do and in the case of disobeying the rules of organisations lead to a reprimand or fired. Hence, organisations act as a force to its people (Bryman and Bell, 2011).

The radical structuralist and functionalist paradigm of Burrell and Morgan (2017) adopts the objectivism epistemological stance. Functionalist paradigm has given a leading framework for the study of organisation and the management of sociology. The perception in this paradigm is firmly rooted in the sociology of regulations. It tends to provide a rational explanation of the affairs of the sociology of regulations such as the status quo, social integration, social order, and satisfaction of individual from the viewpoint of positivist, realistic, determinist, and nomothetic (Burrell and Morgan, 2017). These views are located in the pure science where research issues are evaluated, measured, and monitored. This paradigm adopts a deductive approach by reviewing the existing knowledge that support in developing research hypotheses. These hypotheses are then tested to proof or dis-proof the theory rather than building new theory (Gioia and Pitre, 1990).

The radical structuralist paradigm holds a sociological view of radical change from the objective standpoint. The objectivist approaches the social affairs from a perspective of realism, positivism, monotheism, and determinism. It tends to have a structural relationship between the matters of realist social world. This paradigm also holds the notion that radical change is a nature and structure of modern society and provides an explanation of the basic inter-relationship within the social context. The goal of this paradigm is to understand, explain, act, and criticise matters in a structural way that has an existence in organisation world, and transform them in a collective resistance and radical change (Gioia and Pitre, 1990). Additionally, the properties of this paradigm are matched with that of functionalist with the exception of sociological view.

However, a subjectivist believes exactly the opposite of what a objectivist believes. Subjectivism claims that social phenomena are constructed from the perceptions and consequent actions of individuals in society. As the interactions between the individuals are a continual process, social phenomena are also continuously changing. Hence, it is necessary to concentrate on the facts behind the phenomena to understand what is actually happening. Subjectivism is often referred to the term 'constructionism' or 'social constructionism' where the social reality is socially constructed (Saunders et al., 2012). Bryman and Bell (2011, p 22) define constructionism as "an ontological position which asserts that social phenomena and their meaning are continually being accomplished by social actors". Subjectivist holds the notion of multiple realities or truths about the social affairs which are form by the social context. Also, truth or reality is created by how the researcher sees the things and it evolves and changes based on the researcher's experiences (Killam, 2013).

Based on the subjectivism viewpoint, Burrell and Morgan (2017) divide the research paradigm into two categories which are radical humanist and interpretive. On the one hand, the radical humanist has the commonality with the interpretivist, nominalist, voluntarist, anti-positivist, and ideographic. One of the fundamental underlying beliefs in this paradigm is that the consciousness of human being is dominated by the ideological superstructures in which he/she interacts. To conceptualise the radical change in the sociology, radical humanist focuses on radical change, emancipation, deprivation, domination, and potentiality. Radical humanist also concentrates on human consciousness to maintain the view of subjectivism.

On the other hand, the interpretive paradigm dictates the view of researchers to be socially and symbolically constructed (Gioia and Pitre, 1990). This paradigm attempts to seek an explanation of the affairs in the social world through the individual's consciousness rather than observation of action. It views society as an evolving process which is constructed by the individuals concerned. Hence, the individual is seen as an active participant in creating the social realities. Similar to radical humanist, this paradigm also trends to be anti-positivist, nominalist, voluntarist and ideographic (Burrell and Morgan, 2017). The objective of this paradigm is to provide description, explanation, and insights into the social phenomenon. In addition, to develop the theory, this paradigm adopts an inductive approach with the qualitative method by preserving the unique representation of data (Gioia and Pitre, 1990).

The epistemology of researchers is dictated by ontological beliefs. Epistemology focuses on what comprises acceptable knowledge in the field of research (Saunders et al., 2012; Bryman and Bell, 2011). It examines the relationship between researchers and knowledge during the discovery (Killam, 2013). Hence, it refers to the question of how do we know, what we know? To answer this question, researchers' ontological beliefs divide them into two major approaches which are subjectivism and objectivism. Based on the subjectivism and objectivism ontology, major epistemological positions are positivism, realism, interpretivism, and pragmatism (Saunders et al., 2012).

Positivism is an epistemological position of a researcher that "advocates the application of the methods of the natural sciences to the study of social reality and beyond" (Bryman and Bell, 2011, p. 15). A positivist believes that human knowledge is only confined to phenomena or realities that are presented to the senses. Hence, positivist collects data from only observable realities and identify regularities and the causal relationship among the data to form theories or law. (Saunders et al., 2012). In this philosophy, both deductive and inductive approaches are adopted. Deductivism holds the notion that research is supported by theories from which hypotheses are generated and tested to reform the theory or law. Inductivism believes that the knowledge is constructed by gathering the facts which are the basis of law (Bryman and Bell, 2011). In generating theories or law in positivism, researchers conduct the research in a 'value-free way', it means being objective (Saunders et al., 2012). So, positivists have the notion that social affairs that are observable and measurable are constituted as knowledge.

Realism is an epistemological position of the researcher which has similarities with the positivism where both philosophies adopt the scientific approach to the development of knowledge (Saunders et al., 2012). Realist holds the notion that social realities have their own existence and these are external to the researchers (Bryman and Bell, 2011). There are two kinds of realism which are direct realism and critical realism.

Direct realism assumes that what researchers sense is the real affairs of the world. Therefore, it can be said "what you see is what you get" (Saunders et al., 2012, p136). For example, an umpire in the cricket match decides based on what he sees. Conversely, critical realism argues that what researchers perceive is the images or illusion of the real world. Critical realist belief that our senses can deceive us. For example, during a cricket match on the television, a painted image on the grass can appear to be real. So. In critical realism, there are real things itself that convey its reflection or sensation. When the sensation or illusion meet our senses, it sometimes generates mental processing (Saunders et al., 2012).

Interpretivism is a branch of epistemology that criticises the philosophical position of the positivist. The ontological position of interpretivist is subjectivism and subjectivists view the social affairs based on meaning (Bryman and Bell, 2011). The social reality is in researchers' mind in subjectivism which researchers interpret based on their understanding. Hence, a reality has multiple dimensions as it is changed by the subjective perception of researchers (Collis and Hussey, 2009).

A interpretivist views the world in the form of phenomenology and symbolic interactionism. Phenomenology denotes the way in which human being view the things around us. Symbolic interactionism means we are in a continual process of interpreting the social world and interpret the actions of others with whom we interact. Our interpretation adjusts to our own meanings and actions. However, the main theme of interpretivism philosophy is that researchers in the social science need to be empathetic to social affairs so that social affairs can be understood based on their meaning. (Saunders et al., 2012).

Pragmatism is another facet of epistemology. It focuses on the practice of applied research. The ontological stance of researchers in pragmatism is based on external multiple views. It concentrates on both subjective meaning and observable phenomena in building acceptable knowledge. The pragmatists play a substantial role in interpreting results by adopting mixed or multiple, qualitative, and quantitative method design (Saunders et al., 2012).

Most of the research falls in the boundary of two major philosophies positivism or Interpretivism. However, there is a need for researchers to adjust their philosophical belief over time and forward to a new position on the continuum (Collis and Hussey, 2013). When the assumptions of the researchers do not match with the properties of the positivism or interpretivism, pragmatism probably the best choice in this regard. The research questions and problems are at the heart of the pragmatist researchers in deciding the philosophy (Wilson, 2014).

Axiology is a branch of philosophy that deals with the studies of judgments about values. Researchers in social science use personal values at every stage of the research. Values crucially depend on the researchers' philosophical beliefs of what makes as an appropriate method of investigation (Saunders et al., 2012). According to Bryman and Bell (2011), researchers' biography, experiences, knowledge, and attitude constitute personal values that dictate the ways researchers view the world.

Subjectivist researchers tend to be laden with values. However, the research that adopts objectivism paradigm tends to be value-free although it is difficult to stay away from personal values in social science research. As such, researchers need to confirm that "there is no untrammeled incursion of values into the research process" (Bryman and Bell, 2011, p 30).

The philosophy or paradigm of researchers depends on the ontological, epistemological and methodological viewpoint (Guba,1990; Kuhn, 1970). The researcher of the current study assumes that there is a single truth about the reality that the research deals with. In addition, the truth is free from a context and can be discovered with objective measurement. Therefore, the ontological belief of the researcher for the current study is objectivism (Bryman and Bell, 2011).

In the process of discovering the reality or the truth of the current research, the researcher does not have any influence on the data analysis. The researcher concentrates on the outsider views and stays away (etic approach) from the research. These approaches enable the researcher to measure the truth objectively. Hence, the epistemological position of the researcher for the current study falls within the area of positivism (Saunders et al., 2012; Bryman and Bell, 2011).

Based on the researcher's ontological and epistemological viewpoint, the current research design starts with reviewing the existing literature in the relevant field with a deductive approach. It enables the researcher to develop the hypotheses which are then tested to proof or disproof. As the researcher believes that the reality of the current research can be measured objectively, the axiology (personal value) of the researcher does not influence the current research. According to Killam (2013) a researcher's ontology dictates epistemology, epistemology dictates methodology, and methodology dictates the methods. Therefore, based on the nature of current research and the researcher ontology, epistemology and axiological position discussed above, the philosophical position of the researcher is well matched with the properties of the positivism epistemology. Thus, the philosophical position of the current researcher is positivism. Additionally, according to Burrell and Morgan (2017) paradigm model (Figure 5.2), the current research fits with the side of objectivism that has two areas functionalist or radical structuralist. As the objectives of the current research are to measure the aspects of performance and do not concentrates on the changes of the social affairs articulated by Burrell and Morgan, this research is more likely to adopt the functionalist paradigm and rejects the radical structuralist.

## 5.3 Research Approach

Research methodology is broadly divided into two categories which are quantitative method and qualitative method. However, when a research adopts both qualitative and quantitative methods, it is called a mixed method (Cameron, 2011). So, the methodological choice is ranging from quantitative method, qualitative method, and mixed method (Bryman and Bell, 2011; Saunders et al., 2012).

Quantitative method (Figure 5.3) emphasises on social facts and causes through quantification of the collection and analysis of data. This method generally associated with the positivism philosophy where social reality is external to the researchers. It incorporates the practices and norms of natural science. The data collection in this method is highly structured. In addition, this method embraces a deductive approach to exhibit the relationship between the theory and the research. However, an inductive approach may also be used when data are used to develop theories (Bryman and Bell, 2011). A quantitative research process has been shown in Figure 5.3.

Figure 5.3: Quantitative Research Process

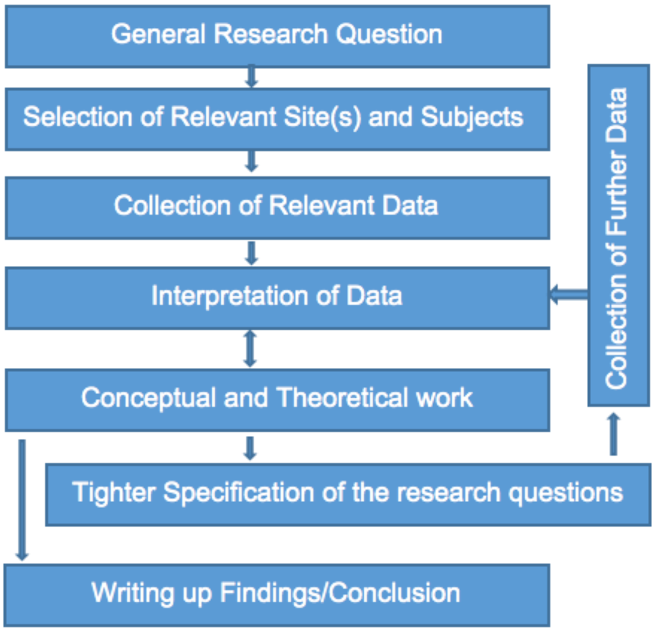

Source: Bryman and Bell ( 2011).

The quantitative research method adopts statistical techniques to measure and examine the relationship between the variables. Hence, this method requires the collection of numerical data. Due to an objective viewpoint, the researchers in this method are independent from the research respondents. This type of research generally adopts experimental or survey strategy, and data are collected through questionnaire, structured interview, or structured observation (Saunders et al., 2012).

The philosophical distinction between quantitative and qualitative research advocates each method with a distinguished research process. The process of qualitative research has been portrayed in Figure 5.4.

Qualitative research method emphasises on the meaning of the words in collection and analysis of information rather than quantification. This method generally holds the interpretive philosophy in which social realities are constantly shifting with the social context. Also, this method is associated with the practices and norms of social science (Bryman and Bell, 2011). As qualitative research focuses on the quality of the object and the socially constructed reality, Gubrium and Holstein (1997, cited in Bryman and Bell, 2011) have categorised the qualitative research into four traditions which are Naturalism, Ethnomethodology, Emotionalism, and postmodernism.

Figure 5.4: Qualitative Research Process




Source: Bryman and Bell ( 2011)

Qualitative research generally starts with an inductive approach that trend to enrich the existing theories in the relevant areas. However, qualitative research can be commenced with a deductive approach using qualitative process in order to test the existing theories. Additionally, qualitative research can adopt an abductive approach where it starts with an inductive approach to explore the social phenomena or identify themes to build theories, and then adopts a deductive approach to test the developed theories against the existing theories in the field. The data collection method in this type of research is non-standardised, hence, research questions and procedures may be changed during the research process. The major research strategies in qualitative research are action research, case study, grounded theory, ethnography, and narrative research (Saunders et al., 2012).

The selection of research methodology depends on the types of a research question and the philosophical position of the researcher (Saunders et al., 2012; Cameron, 2011; Ghauri and Gronhaug, 2005). In section 5.2, the researcher has discussed that the current research falls in the field of positivist philosophy. The ontological position of the positivist researcher is objective (Bryman and Bell, 2011). Thus, the methodological choice of the objectivist researcher can be quantitative or qualitative (Saunders et al., 2012). However, the data requires for the current research to fulfil its objectives is numerical by nature. In addition, the most commonly used method for the objectivist methodology is quantitative (Bryman and Bell, 2011). Hence, based on the nature of the current research and the philosophical position of the researcher, this research adopts a quantitative method in order to answer the current research questions.

## 5.4 Research Design

The research design is a framework or a general plan of how a research will be carried out in order to answer the research questions (Saunders et al., 2012; Bryman and Bell, 2011). A research is designed based on its research questions and objectives. Moreover, research design requires the researcher to understand the purpose of the research. The purpose of a research can broadly be categorised into three categories of exploratory, descriptive, and explanatory (Richey and Klein, 2007).

Exploratory research explores by collecting data or facts in order to explain a situation or an event. This type of research design is suitable when the research topic is very little known, and hence, the design is relatively less structured than the other research designs (Richey and Klein, 2007). The aim of the exploratory research is to identify what is happening in the interested areas to gain its insights. It starts with a broad focus and narrows down as the research progresses (Saunders et al., 2012). Moreover, exploratory research describes how things are instead of why things are as they are or how things will be or should be (Denscombe, 2002). Exploratory research is conducted by reviewing the literature and by an in-depth interview with the expertise in the field. As this type of research explores to answer the research question, it is flexible and adaptable to change to best fit the new data (Saunders et al., 2012).

Explanatory research trend to test the relationship between the variables with the objective of why things are as they are (Richey and Klein, 2007). This type of study emphasises on the explanation of a situation or a problem (Saunders et al., 2012). An example of explanatory research study can be ‘does the advertising helps in achieving greater market share?’ (Ghauri and Gronhaug, 2005, p. 59).

Descriptive research tends to investigate social facts or affairs (Richey and Klein, 2007). This type of study ascertains an accurate profile of situations, events, and persons (Saunders et al., 2012). The research question in descriptive study commences with the words how, when, and which. These words only describe the facts and not explains the reasons for the fact (Hair et al., 2007). The research problem in descriptive research is well understood by the researchers, therefore, the research design is comparatively structured (Ghauri and Gronhaug, 2005).

The current research aims to assess the performance of Islamic banks compared to conventional banks. To measure the performance, this research explores to identify customer satisfaction, employee satisfaction, and internal business process of sampled banks. In addition, this research analyses the financial statements to identify financial performance.

Based on the nature of the current research, it is deemed as an exploratory study because it explores to identify the level of satisfaction of customers and employees, the internal business process, and financial performance of the sampled banks. It also investigates how things are instead of how things will be or should be or why things are as they are. Additionally, based on a review of the extant literature to date, no study has been conducted to assess the performance of Islamic banks compared to conventional banks in Bangladesh from the viewpoint of four perspectives of performance. So, the exploratory nature of the current study dictates the researcher to answer the research questions of an unknown case (Richey and Klein, 2007; Denscombe, 2002).

## 5.5 Research Strategy

Research strategy can be categorised into deductive, inductive, and abductive. Deductive approach refers to a research that is carried out based on the existing theories in the field. It is a reasoning process that begins with a theory or hypothesis and ends with empirical observation to conclude the theory (Taylor et al., 2006). Researcher in a deductive approach has a clear position about the relevant theories that help them to devise the research question. Hence, a deductive approach is said to be theories driven that trends to test or develop the existing theories by the collection of empirical data (Saunders et. al., 2012). Quantitative research is likely to adopt a deductive approach to test or develop the theories in the relevant areas (Bryman and Bell, 2011).

An inductive approach follows the opposite of what a deductive approach does. It is a reasoning process that starts with empirical data and continues to generate a generally applicable conclusion (Taylor et al., 2006). It does not necessarily rely on identifying the existing theories in devising the research question. Instead, it tends to get phenomenon from collecting the data. Although inductive research does not rely on the existing theories, it does not mean it disregards the theories in the areas. It permits the researcher to get a concept from the theories that are explored throughout the research process. From this viewpoint, every research is commenced with the knowledge in the area (Saunders et. al., 2012). Qualitative research tends to adopt an inductive approach to build a theory (Bryman and Bell, 2011).

Abductive approach, however, combines both inductive and deductive approaches. Research in abductive approach starts with the inductive approach by collecting the data to form a social phenomenon leading to constructing the research question and objectives. Later, it goes back to the existing theories to triangulate the findings gathered from the data collection (Saunders et. al., 2012).

The current research starts with reviewing the literature in the field of Islamic finance and performance measurement from which the research questions and the objectives have been constructed. The literature have also provided the researcher with a clear position that helps to build a conceptual framework and research hypothesis. Hence, this research can be considered to have a deductive approach throughout the process. Moreover, based on researcher philosophical stance and the nature of the current research, this research adopts a quantitative method that also tends to follow a deductive approach (Bryman and Bell, 2011).

### 5.6 Research Methods

Research method refers to a systematic and orderly approach in order to collect and analyse data so that information can be gathered. Thus, research methods deal with data collection and the analysis of the collected data. There is a distinction between data and information. Data are raw and undigested, hence, these are meaningless. However, when these data are analysed and arranged, these are called information that is used to answers the research question (Jankowicz, 2005). Therefore, this section describes the data collection methods and the data analysis methods based on the quantitative nature of the current research outlined in section 5.3.

i. Data Collection Method

Research data are collected from two sources which are primary sources and the secondary sources. Based on the nature of a research, data can be collected by the instruments such as questionnaire, interview, and observation (Bryman and Bell, 2011). The current research has collected data from both sources, primary and secondary in order to fulfil the research objectives. Primary data have been collected by structured questionnaires and the secondary data have been collected from the annual financial statements and directors' reports of the sampled banks. The primary and secondary sources of data and the applied instruments for the current research have been discussed below.

**_a. Primary Data_**

Based on the objectives of the current research, primary data is collected in order to identify the level of customer satisfaction, employee satisfaction. Also, primary data have been collected to partially support the internal business process as the data for the internal business process are based on both primary and secondary sources. Primary data have been collected by the two sets of questionnaires that include customer satisfaction questionnaire and employee satisfaction questionnaire. The contents of customer satisfaction questionnaire and employee satisfaction questionnaire have been discussed below.

### *1. Customer Satisfaction Questionnaire*

The customer satisfaction questionnaire has been designed based on the aspects of Service Quality (SERVQUAL) model presented by Parasuraman et al., (1985,1988) discussed in chapter 3, section 3.2.2 and 3.2.4. The SERVQUAL concentrates on ten aspects of service quality to measure customer satisfaction which are tangible, reliability, responsiveness, competence, understanding or knowing customer, courtesy, credibility, security, access, and communication. These ten parameters of the SERVQUAL are the basis of the questions in the customer satisfaction questionnaire (Table 5.1). Afterwards, the questions of customer satisfaction questionnaire are presented on a five-point Likert scale from strongly satisfied to strongly dissatisfied (appendix 1).

**Table 5.1 Parameters for Devising the Customer Satisfaction Questionnaire**

| Parameters | Statements |
|---|---|
| Tangibles | Your bank has modern IT equipment. For example, cash or cheque deposit machine. |
| | Your bank has appealing interior design and facilities. |
| | Employees are appeared neat and clean. |
| Reliability | Your bank operates according to their advertised promise. |
| | Your bank has the ability to perform the promised service accurately and reliably |
| | Employees are not willing to help customers promptly. |
| Responsiveness | Employees have the ability to provide prompt service |
| | Customers' applications are not processed on time. |
| Competence | The products of your bank meet customers' financial (Banking) demand. |
| | Employees have the right knowledge to answer customers' queries and problem |
| | Customers queries and problems are not dealt with sincerely and professionally. |
| Knowing Customer | The employees understand and pay attention to every customer's banking requirements. |
| | The employees have customers' best interest at the heart of their services. |
| Courtesy | Customers feel that they are respected. |
| | Customer contact employees are not friendly to all customers. |
| | Service personnel are courteous with all customers. |
| Credibility and Security | Customers feel safe in their transactions. |
| Access | Customers wait in a long queue at the counter. |
| | Customers can contact the required employee when they need. |
| | The bank can be contacted by telephone and email |
| | The bank has ATM in convenient locations. |
| Communication | The bank does not inform customers regarding all the necessary information. |

Source: Author's own Table, concept obtained from Parasuraman et al., (1985,1988)

2. ***Employee Satisfaction Questionnaire***

The employee satisfaction questionnaire has been developed by considering the motivational theories (For example, Herzberg et al., 1959 and Maslow, 1954) and the studies in the field discussed in chapter three, section 3.3.1. The theories have identified the underlying factors for employee motivation and satisfaction such as Herzberg et al. (1959) hygiene and motivators factors (Table 3.2) and Maslow's (1954) human needs. The construction of the employee satisfaction questionnaire also considered the learning and growth aspect of Balanced Scorecard. The learning and growth focus on the measures that answer the question- "To achieve our vision, how will we sustain our ability to change and improve?" (Kaplan, 2009, p4). This perspective of performance is mainly associated with the employees of an organisation because the learning and growth is a generic name for employee or people. The measures for learning and growth suggested by Kaplan (2009) are employee empowerment, employee motivation, employee capabilities and skills, information system, and corporate culture that support the strategy of an organisation and its internal process. Customer satisfaction, employee turnover, absenteeism, and lateness can also be considered as measures for the learning and growth measurement (Kaplan, 2009, Kaplan and Norton, 2001). Therefore, the employee satisfaction measures include the aspects of human resources management specifically the aspects of job satisfaction suggested by the classical motivational theories. These measures are supervision, company policy, training, working conditions and environment, remuneration, promotion, recognition, the job itself, relationship, workload, and participation.

Based on the measures discussed above, twenty- five statements have been devised (Table 5.2) which are then presented on a five-point Likert scale (appendix 2).

**Table 5.2 Parameters for Devising the Employee Satisfaction Questionnaire**

| Parameters | Statements |
|---|---|
| Supervision | Management and leadership skill of your immediate supervisor. |
| | Conflict resolution skills of your immediate supervisor |
| | Communication between the employees and immediate supervisor |
| | Management and leadership skill of your directors or expert body. |
| Company policy | The policies of the bank |
| Training | The training programs in the institution. |
| | The amount of training you received to perform your job |
| | The available opportunities in your work for learning and growth |
| Working Conditions and Environment | The access to facilities necessary for performing your tasks |
| | The healthy working condition for example clean indoor air, sufficient light, and safe drinking water |
| Remuneration | your salary attractive within the banks. |
| | Your salary as compared to external comparable banks. |
| | The reward system for extraordinary performance. |
| Promotion | Your career progression opportunity at the company. |
| Recognition | Company's recognition for your better performance |
| The job itself | The work (It means the job is according to your expectation) |
| Relationship | The involvement of colleagues with other competencies in your work |
| | The respect from your co-workers or colleagues |
| | The teamwork in your sector |
| | The relationships between employees in general |
| Workload | The number of employees available to perform the work in your department. |
| | Company's expectation on the amount of work you need to perform. |
| | The working hours of the bank |
| Participation | The participation in the management meeting. |
| | The possibility to elaborate your opinion on different work-related aspects? |

Source: Author's table, concept obtained from Herzberg (1982), Herzberg et al. (1959) and Maslow (1954).

**3. *Internal business process measurement.***

The internal business process of a bank is measured by considering the aspects of the internal business process presented by the Balanced Scorecard model. According to Kaplan and Norton (2001) and Kaplan (2009), the internal business process consists of innovation process, customer management process, operational management process, and regulatory and social process. The current research selects the measures for internal business process by considering the key measures of customer management process and operational management process as per the studies Balkovskaya and Filneva (2016), Wu (2012), Panicker and Seshadri ( 2013), and Al-Najjar and Kalaf (2012). Due to time constraint, the innovation process and the regulatory and social process of the Balanced Scorecard have not considered for the current research. The measures in terms of customer management process include the number of customer complaints, time taken to response the complaint, and complaint resolution time. These data are collected from the primary data source through the customer satisfaction questionnaire (appendix 1).

***b. Secondary Data***

This research collects secondary data in order to measure the financial performance of Islamic banks compared to conventional banks. Similarly, secondary data are collected for the measures of the internal business process which are productivity growth and credit growth. The sources of secondary data are banks' annual financial statements, directors' reports, and banks' website. Moreover, the secondary data have also been collected from the stock exchange listing when the required data are not available in the banks' financial statements.

***1. Financial performance (Ratios)***

Based on the literature discussed in chapter three, sections 3.5, this study measures financial performance by considering the profitability ratios. Profitability ratios assess the profit generation ability of a firm compared to its trading activities and investment. It is a very basic ratio that financial analysts use to assess financial performance. Besides, a number of studies discussed in section 2.5 and section 3.5.1 (For instance, Al-Hares et al., 2013; Abdullah, 2011; Fayed, 2013; Siraj and Pillai, 2012) used profitability ratios along with other ratios to measure bank performance. The profitability ratio includes profit margin (PM) ratio, return on asset (ROA) ratio, and return on equity (ROE) ratio (Kabir and Worthington, 2017; Al-Hares et al., 2013). From the profitability ratios, ROA and ROE have been considered for the current research. It is because the fundamental goal of the financial performance measurement is to measure the return of an organisation for the shareholders (Easton, 2004; Outley, 2002). The ROA and ROE are the ratios that reveal the final return of an organisation (Al-Hares et al., 2013). Moreover, the ROA and the ROE are correlated with the profit margin ratios (Profit margin means adding a desired profit rate to cost of a product). For example, a higher profit margin will result in a higher ROA and ROE and vice versa. In addition, as this research measures the financial and non-financial aspects of performance, and due to time constraint, it aims to focus on the most fundamental financial ratios. Thus, this research selects the ROA and the ROE in relation to financial performance measurement.

ROA indicates how a bank utilises its asset to earn a profit. It also indicates the operational performance of the banks by showing how much revenue is generated per currency value (For example, £1) in relation to its asset. The higher the ratio, the better the performance of the company (Al-Hares et al., 2013). It is calculated by net profit over the total asset as follows:

Net Profit / Total Asset x 100

ROE indicates the banks' ability to utilise the shareholder fund to generate profit. It reveals the management efficiency in terms of equity utilisation. It is calculated with the net profit divided by total equity of the bank as follows:

Net Profit / Equity Capital x 100

Investors are very much concern about ROE before investing in a bank. Because, the higher the ROE, the higher the efficiency of a bank. Hence, a higher ROE attracts potential investors.

2. ***Internal business process***

As per the guidance of the literature in the field, this study collects secondary data for internal business process by considering the sampled banks' operation management process. Operation management process has been measured by analysing two key ratios from the bank's financial statement. These ratios are productivity growth and credit growth (Al-Najjar and Kalaf, 2012). Productivity indicates the efficiency of an organisation, and hence, it can be considered as an efficiency ratio. The productivity is calculated by considering output over input. Output refers to the total income (operating profit) of the bank and input refers to the total operating cost of the bank (Amiri et al., 2012).

Credit growth means an increase in bank's lending (investment) in the form of credit, loan or any other form of financing. When a bank lends money to a borrower, it increases the bank's credit. Therefore, a growth or a decrease in credit indicates the performance of operation management which is a part of the internal business process. It is calculated by deducting the previous year (2015 for this study) lending from the current year (2016 for this study) lending divided by the previous year (2015) lending.

ii. Sampling

a. ***Research Population***

The target population of this research is the entire banks in Bangladesh and their employees and customers. The banking system in Bangladesh consists of a total fifty-seven listed banks in which two banks are established for agricultural purpose (It means they do not operate as commercial banks), nine banks are foreign commercial, and forty-six banks are private commercial. The forty-six private commercial banks include thirty-eight conventional banks and eight Islamic banks. To be considered as a customer of the banks for the current study, one needs to be with the banks for more than six months and have one bank account.

From the fifty-seven listed banks, seventeen banks are excluded. These banks are nine foreign banks, two specialised banks (For example, agriculture bank), and six newly launched banks. The foreign banks are excluded because these banks and their customers are not easily accessible and do not represent the culture of the whole population. The specialised banks are excluded as these banks do not operate as a commercial bank and cannot satisfy the day to day financial demands of an individual. The newly listed banks are excluded due to the lack of availability of data required by the current research. After deducting the seventeen banks, the remaining forty banks (thirty-two conventional and eight Islamic) are the population for the current study.

The entire population of this study is not accessible due to time and budget constraint. Hence, the researcher decided to select a sample from the population.

#### *b. Sampling Method*

Sampling method consists of probability sampling and non-probability sampling. Probability sampling includes random sampling where every member of the population is known and has an equal chance to be selected. Hence, it has the best chance for the sample to be representative of the population (Sekaran and Bougie, 2016).

Non-probability sampling uses the non-random sampling method where a researcher adopts his/her judgement or convenience sampling. One of the non-probability samplings is purposive. In purposive sampling, a research selects the participants based on the researcher judgement (Sekaran and Bougie, 2016) on respondents' characteristics, traits, and behaviours (Trochim and Donnelly, 2008).

This research adopts a non-probability purposive sampling as a technique of respondents selection. The reason for selecting the non-probability sampling is that the current research purposely segments the population frame into three regions based on respondents' characteristic, traits, and behaviours. The probability sampling is not used because it is not feasible for the current research to adopt a random sampling as every member of the population has no equal chance of being selected. Moreover, it is time-consuming to collect information from all the banks in the population frame that is not possible within the allocated time frame of the current research.

### *c. Bank Sampling*

This research measures the performance of all Islamic banks (eight banks) in Bangladesh. Hence, it selects the same number of major conventional banks. In selecting the eight major conventional banks, this study has taken into consideration of the availability of the bank's branches (both Islamic banks and conventional banks) at the trade and economic zones and the similarity in financial services (It means, both types of banking system are the commercial banks) between Islamic banks and conventional banks. Moreover, as the selected eight banks are major conventional banks, they represent the whole conventional banks in Bangladesh. Therefore, it can be stated that the representativeness of sampling is believed to be achieved in selecting conventional banks for the current research. The sampled banks are presented in Table 5.3.

**Table 5.3: Sampled Banks**

| Islamic Banks | Conventional Banks |
|---|---|
| Al- Arafah Islamic Bank Limited | Agrani Bank Limited |
| EXIM Bank Limited | Brack Bank Limited |
| First Security Islamic Bank Limited | Dhaka Bank Limited |
| ICB Islami Bank Limited | Duch Bangla Bank Limited |
| Islami Bank Bangladesh Limited | IFIC Bank Limited |
| Shahjalal Islami Bank | Mercantile Bank limited |
| Social Islami Bank Limited | Prime Bank Limited |
| Union Bank Limited | Sonali Bank Limited |

Considering time and costs, the researcher selects the sampled banks from three geographical regions of Bangladesh which are capital city Dhaka and two seaport cities Chittagong and Khulna. These regions are considered as a major trade and economic zone in Bangladesh (Bangladesh export processing zone authority report 2015-16). These areas are also densely populated with various religion, education, and culture from all parts of the country. Moreover, all the sampled banks are located in these regions due to trading opportunity and socioeconomic activities. Hence, the sampled banks are considered to be representative of the research population.

### *d. Respondent Sampling*

The sample size for the current research has been determined by reviewing the literature in the field (For example, Keisidou et al., 2013; Taap et al., 2011) and by the guideline of the authors (Hair et al., 2010; McDaniel and Gates, 1993; Nunnally, 1978) who suggest that the observation of each variable or statement in an instrument should not be less than five (5:1) and the ideal observation is ten (10:1). This research determines the sample size in between the ratios of 5:1 and 10:1 which is similar to the studies of Zafar et al. (2012) and Chen et al. (2012) in the banking sector.

The number of statements in the customer satisfaction questionnaire is twenty two. Based on the recommendation of the above authors, the minimum sample size of the customer satisfaction questionnaire is 110 respondents and the ideal sample size is 220. This research sets the sample size for customer satisfaction questionnaire as 200 respondents for each type of conventional banks and Islamic banks which is close to the ideal observation.

Similar principles have also been considered to determine the sample size for the employee satisfaction questionnaire. The number of statements (questions) in the employee satisfaction questionnaire is twenty-five that gives the minimum sample size of 125 respondents and the ideal sample size of 250 respondents. This research decides on the sample size of employee satisfaction questionnaire as 160 respondents for each type of banking system Islamic and conventional. This sample size falls in between the range of 5:1 and 10:1. The employees are selected randomly who have worked for at least six months for the participant banks.

iii. Research Instrument Design

Research instrument means the tools used to gather data required for a research (Saunders et. al., 2012). The instrument for the current research is questionnaire that collects the primary data. The questionnaires for the current research are designed after reviewing the relevant literature, social research methodology books, previous Ph.D. theses, and having a discussion with the fellow researchers.

This research uses two sets of self-completed questionnaires to gather the data required by the research questions and objectives. These questionnaires are customer satisfaction questionnaire and employee satisfaction questionnaires. Both questionnaires contain four pages including the cover page. Each questionnaire contains questions precisely required by the research objectives and the use of technical words are avoided to make the questionnaire easy to understand. Likewise, the questionnaires avoided 'double-barrelled' questions (a question with more than one issue) to ease the respondents' confusion. A mixture of positive and negative statements has also been made to raise the respondent's concentration.

Both customer and employee satisfaction questionnaires are close ended and have two sections. Section one asks questions regarding the aspects of satisfaction and section two asks questions on respondent's demographic information. Demographic information is asked in order to correlate the responses to various variables between the population. The respondents rank their response for each statement from 1 to 5 point Likert scale. In customer satisfaction questionnaire, the scale 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, and 5 = strongly agree. In employee satisfaction questionnaire 1 = highly dissatisfied, 2 = dissatisfied, 3 = neutral, 4 = satisfied, and 5 = strongly satisfied.  A cover letter is attached at the beginning of each questionnaire with clear instruction on how to answer the questions. A sample of both questionnaires can be found in the appendices.

In addition, both questionnaires are written in English. The bank employees in Bangladesh need to deal with English (reading and writing) in banking operations. Thus,  the respondents for employee satisfaction questionnaire are capable enough to read and understand the questionnaire in English. In terms of customers satisfaction questionnaire, the researcher translated the questionnaire to those respondents who were not capable enough to read and understand the questionnaire in English.

iv. Questionnaire Administration

There are a number of techniques to administer a questionnaire such as postal, email, in person, and telephone (Saunders et al., 2012). This research administers the questionnaires in person (Drop-Off). For employee satisfaction questionnaire, the researcher has visited the sampled banks and distributed the questionnaires among the banks' employees. Prior to distribution, permission has been taken from each bank branch manager. For customer satisfaction questionnaire, the researcher has distributed the questionnaire in person at the sampled banks. Also, the researcher has circulated the customer satisfaction questionnaire in private and public offices, shops, and among the friends and family member who has a bank account with the sampled banks. While distributing the questionnaires, the researcher has kept a note of the number of respondents from each banking system of Islamic banks and conventional banks to maintain a balanced. It has been done by asking customers prior to distribution about the name of the banks they bank with. If a customer has a bank account with both banking systems within the sampled banks, then the customer has been given two sets of questionnaires. One set for Islamic banks and one set for conventional banking.

Prior to circulating the employee satisfaction questionnaire and customer satisfaction questionnaire, the respondents have been introduced the purpose of the study and courteously ask about the willingness to take part in the survey. Once the respondents are agreed, clear instructions have been given on how to complete the questionnaire.

Moreover, when the questionnaires could not be administered in person in both cases customers and employees then the respondents were contacted through a telephone call. In order to do this, the telephone number was collected from the customers and the employees when the researcher has met them.

The questionnaires have been collected in person either after completion or on the next agreed date and time with the respondents. As each questionnaire takes 5-7 minutes to complete, it was feasible to get the questionnaires back after completion.

The researcher has distributed and collected the questionnaires in person until they reach to the desired number of respondents (320 employees and 400 customers) for both questionnaires. Therefore, the response rate of both questionnaire is 100 percent.

v. Pilot Testing

Before the final administration of the instruments, a pilot testing is desirable to ensure the instruments operates well (Bryman and Bell, 2011). A pilot testing increases the reliability, validity, and the practicality of the questionnaire (Cohen et al., 2013). It also refines the questionnaire so that the respondents have no issues in answering the questions and subsequently, there are no issues in recording the data (Saunders et al., 2012). Piloting should not be carried out on the respondents who have a chance to be a member of the sample of the final study as it may affect the representativeness of any subsequent sample. The best way to select a small group of people as similar to the sample population (Bryman and Bell, 2011).

For the current study, after completing the first draft of the questionnaires and having a discussion about the questionnaires with the research supervisors, a pilot testing has been carried out on thirty participants through a convenience sampling procedure. Among the thirty participants, twenty participants are for customer satisfaction questionnaire and ten participants are for employee satisfaction questionnaire. As per Saunders et al. (2012), the participants comprise friends, family member, and relatives who bank with and work for the sampled banks. These participants are a member of the population from which the sample is selected but have not been included in the sample of the final study (Bryman and Bell, 2011).

The respondents' valuable feedback has reduced the use of technical or academic words in the final questionnaires which has made the questionnaires easy to understand. Apart from the use of technical words, the respondents encounter no confusions in answering the questionnaires during the pilot testing.

vi. Validity and Reliability

### a. Validity

A most important criterion of research is its validity. “Validity is concerned with the integrity of the conclusions that are generated from a piece of research” (Bryman and Bell, 2011, p 42). According to Field (2005), validity concentrates on the research’s instruments that measure what is designed to measure. To improve the quality of a research, validity is divided into various form such as construct validity, internal validity, and external validity. Construct validity concerns about research measures what it was intended to assess. It is achieved with the help of another form of validity such as content validity, face validity, and criterion-related validity (Saunders et al., 2012). Internal validity refers to the sustainability of explanation made by a research. It concentrates on the accuracy, consistency, applicability, neutrality, and dependability of interpretations and conclusions of a research. It describes the phenomena accurately that are being researched (Cohen et al., 2013). External validity, on the other hand, focuses on the generality of the research findings. It seeks an answer to the question that “can the findings of the study be generalised to other relevant setting or groups” (Saunders et al., 2012, p194).

In quantitative research, 100 percent validity cannot be achieved. However, validity can be improved through careful sampling, appropriate instruments design, and suitable statistical treatment of the data (Cohen et al., 2013).

This research has developed its instruments based on the most widely used and accepted models and theories in the field. The aim of the research is to measures banks’ performance that is measured based on the concept of well-known performance measurement model called ‘Balanced Scorecard’ presented by Kaplan and Norton (1996, 2001) and Kaplan (2009). Similarly, the contents of the instruments of the current research is design based on widely used and accepted models and theories such as service quality model presented by Parasuman et al. (1988 and 1985) and the motivation theories developed by Herzberg et al. (1959) and Maslow (1954). Moreover, this research has adopted the sampling and data analysis method by reviewing the past empirical research and peer-reviewed journals in the field.

Additionally, a pilot testing has been carried out to verify that the instrument measures what it wants to measure and the respondents encounter no confusions in answering the questions in the questionnaires. Hence, the validity of the current researched is deemed to be achieved.

### *b. Reliability*

Reliability means consistency, dependability, and replicability of a research over times, instruments, and a group of the respondent. For a research to be reliable, it must demonstrate that it yields a similar result when it is carried out on a similar group of respondents in a similar context (Cohen et al., 2013). Reliability is mainly an issue with the quantitative research. The quantitative researcher is concerned about the consistency and stability of the measures which can be achieved by administering the instruments in the various occasion of time such as pilot testing before the actual administration (Bryman and Bell, 2011). Moreover, by approaching respondents at the right time in the right manner can improve reliability. For example, asking respondents to complete a questionnaire just before the lunch break may affect the responses compared to the responses after the lunch break (Saunders et al., 2012).

**Table 5.4 Reliability Statistics (Cronbach's Alpha)**

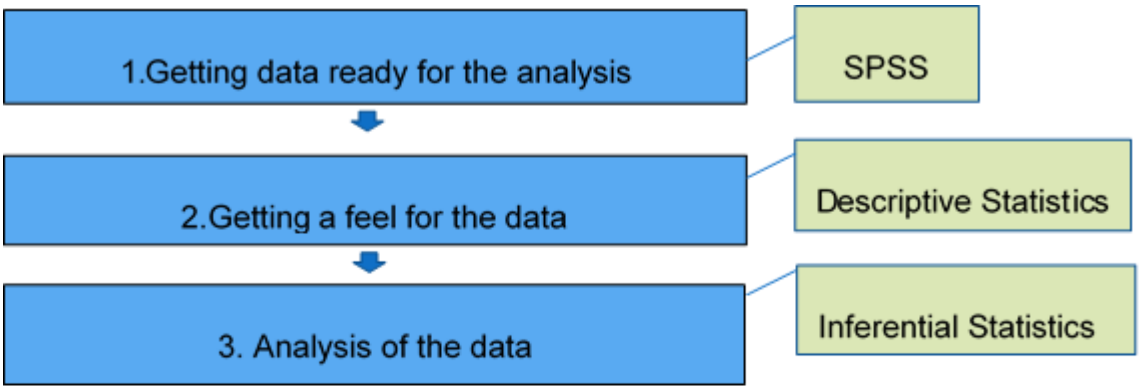
| Instruments | Cronbach's Alpha | No of Items |
|---|---|---|
| Customer Satisfaction Questionnaire | .755 | 22 |
| Employee Satisfaction Questionnaire | .888 | 25 |

This research has achieved reliability by test and retest of the method through pilot testing. Also, the researcher has asked the respondents to complete the questionnaires in their convenient time and place so that the questionnaires can gather the real feelings of the respondents (Saunders et al., 2012). Furthermore, as per Sekaran (2000), internal consistency reliability can be measured by Cronbach's Alpha using SPSS. Therefore, Cronbach's Alpha is adopted for the current research (Table 5.4) to test the reliability. Cronbach's Alpha for customer satisfaction questionnaire is .775 and for employee satisfaction questionnaire is .888. This means the customer satisfaction questionnaire and the employee satisfaction questionnaire have 77.5

percent and 88.8 percent internal consistency reliability respectively. According to Field (2009) and George and Bettenhausen (1990), the benchmark for reliability is .7-.8. So, the reliability for customer satisfaction questionnaire and employee satisfaction questionnaire is considered as good reliability because it is within the reliability range outlined by Field (2009) and George and Bettenhausen (1990). Besides, the reliability of the customer satisfaction questionnaire and employee satisfaction questionnaire is in line with the studies in the field (For example, Chi and Gursoy, 2009; Auer and Antoncic, 2011; Hassan, et al., 2013).

vii. Data Analysis Methods

After the data collection, the current research analyses the data by the guidelines of Sekaran (2000) and Sekaran and Bougie (2016) as follow:




Source: Author's diagram, concepts obtained from Sekaran, 2000 and Sekaran and Bougie (2016).

In order to make the raw data ready for the analysis, this research uses the statistical package for social science (SPSS) software. In the first step, data are inserted and coded along with editing that helps detection of error leading to improving the quality standard. Once the data are ready for the analysis, the descriptive statistic is used to get a feel for the data. In descriptive statistics, central tendency and the dispersion are checked in the data to get a preliminary idea about the data. Then, the quality of the data has been checked by Cronbach's alpha reliability in order to ensure the reliability of the data. After that, suitable statistical tests are applied to infer the statistical significance of the variances between the variables. In the case of current research, the Mann-Whitney U test has been used.

### a. Descriptive Statistics

Research adopts the descriptive statistics to describes the characteristic of its sample (Pallant, 2010). It enables researchers to summarises and organise the variables quantitatively by the statistical techniques of central tendency and the dispersion. Central tendency comprises of an arithmetical average of a set number (mean), frequency distribution (mode), and the midpoint value (median). The dispersion concentrates on how the data value are spread (standard deviation) around the central tendency (Saunders et al., 2012). The most common form of descriptive analysis includes mean (average), frequency distribution, and percentage distribution to understand and describe the characteristics of the variables.

The existing literature in the field (For example, Wasiuzzaman and Nair Gunasegavan, 2013; Manshor et al., 2011; Ton Van and Hesselink, 2002), previous Ph.D. theses and the research methodology books in the social science suggest descriptive statistics for the current research to analyse the data collected by the instruments of Likert scale questionnaires and from the banks' financial statements. The collected data are analysed as follows.

#### *1. Analysis of Customer Satisfaction Questionnaire*

Customer satisfaction questionnaire contains nine variables shown in Table 5.1. These measures are tangible, reliability, responsiveness, competence, knowing customers, courtesy, credibility and security, access, and communication. Each measure has one or more than one statements (questions). To analyse the performance in terms of customer satisfaction, the data retrieved from the customer satisfaction questionnaire have been processed in four steps. First, the score of each statement under a variable has been aggregated to get a mean score (average) of each variable per observation. Second, the mean score of each variable per observation has been aggregated to get a mean of each variable at the bank level (every individual bank). Third, the bank level mean of each variable has been aggregated to identify the mean at the sector level (Islamic banking or conventional banking). Fourth, the sector level mean of each variable has been compared between Islamic banks and conventional banks using a non-parametric test the Mann-Whitney U test which is an alternative to a parametric test t-test (Wasiuzzaman and Nair Gunasegavan, 2013 ; Pallant, 2010; Taap et al., 2011).

### *2. Analysis of Employee Satisfaction Questionnaire*

Employee satisfaction questionnaire contains eleven measures considering various aspects of employee satisfaction. These measures are supervision, company policy, training, working condition and environment, remuneration, promotion, recognition, the job itself, relationship, workload, and participation. Each measure has one or more than one statements. The data from employee satisfaction questionnaire have been analysed in four steps. First, the score of each statement under a variable has been aggregated to get a mean score (average) of each variable per observation. Second, the mean score of each variable per observation has been aggregated to get a mean of each variable at the bank level (every individual bank). Third, the bank level mean of each variable has been aggregated to identify the mean at the sector level (Islamic banking or conventional banking). Fourth, the sector level mean of each variable has been compared between Islamic banks and conventional bank using non-parametric test the Mann-Whitney U test (Pallant, 2010; Taap et al., 2011).

### *3. Analysis of Internal Business Process*

Internal business process questionnaire contains five key measures considering various aspects of the internal business process. These measures are productivity growth, credit growth, customer complaint, customer complaint initial response time, and customer complaint resolution. To analyse the performance in terms of internal business process, data are retrieved from the customer satisfaction questionnaire (these data are collected for the purpose of internal business process through customer satisfaction questionnaire) have been analysed in three steps. First, the score of each measure per observation has been aggregated to get a mean score for the variable at the bank level. Second, the mean score of the variable at bank level has been aggregated to get a mean for each variable at sector level. Third, the sector level mean of each measure has been compared between Islamic banks and conventional. In terms of productivity and credit growth variables, the relevant ratios have been calculated, analysed and compared between Islamic banks and conventional banks.

***4. Analysis of Financial Performance***

Financial performance is measured based on two key ratios of profitability which are return on asset and return on equity. To analyse the financial performance, the ratios have been processed in two steps. First, all the profitability ratios (ROA and ROE) of the banks have been aggregated to get a mean value at the sector level. Second, the sector level mean of each ratio has been analysed and compared between Islamic banks and conventional banks.

**b. Inferential Statistical**

This study adopts inferential statistics in order to compare and test the statistical significance of the variances among the variables of the four aspects of performance. Based on the degree of normality of data distribution, this study adopts a non-parametric test Mann-Whitney U test which is an alternative to parametric test t-test (Field, 2009). The normality of the data has been tested by Kolmogorov-Smirnov and Shapiro-Wilk test using the SPSS.

A parametric test is underpinned by parameters (measures) thus, it is more powerful compared to a non-parametric test (Pallant, 2010). It works based on the three assumptions which are first, data has to be ordinal, interval or ratio. Second, data need to be normally distributed. Third, the variances between the variables need to be equal or homogeneous. Non-parametric test, on the other hand, does not work on parameters, it means assumption free (Bryman and Cramer, 2011). If a parametric test is used and the data do not support the assumptions defined by the parametric test, the result is likely to be inaccurate. Thus, it is important to consider the assumptions prior to deciding which statistical test to use (Field, 2009).

The Mann-Whitney U test is used to compare two mean values of the variables and to test the statistical significance of the variances between the variables. It is an alternative to the parametric test t-test. The Mann-Whitney U test works by ranking the mean values from lowest to highest by looking at the differences within the variables. Therefore, the variable with the lowest mean rank implies the greatest number of lowest mean scores in it (Field, 2009).

### 5.7 Limitations

Based on ontological and epistemological viewpoint, this research adopts the quantitative research method which has been criticised for its limitations. A quantitative researcher is unable to distinguish people and social institutions from the world of nature. The measurement process in quantitative research holds an artificial and spurious sense of precision and accuracy. As quantitative research relies on the instruments and procedures, it hinders the relationship between researchers and everyday life (Bryman and Bell, 2011). However, this method is value-free or in other words objective that derives the research findings by determining the exact facts. Thus, the research results are likely to be generalised (Hara, 1995).

Due to time constraint and cost, this research selects a sample from the population. The findings of the current research would be more vigorous if the entire population could be involved in the study. Hence, it is a limitation in the methodology in terms of research population. However, the sample size is representative as the major banks of both banking system are selected.

Moreover, this research measures the banks' performance based on the Balanced Scorecard model. The Balanced Scorecard has been criticised by many authors (For example, Epstein and Manzoni, 1998; Brignall, 2002; Voelpel et al. 2006; Banchieri et al., 2011) in terms of its perspectives where they mentioned that it only concentrates on the four perspectives of the performance which are internal to the business. So, the Balanced Scorecard should include the external perspectives to the model such as politics, economy, and suppliers. This research is aware of this criticism, but due to time constraints, no further perspectives of performance is included in this study. In addition, there are several performance indicators within the four perspectives of the Balanced Scorecard, but due to research time limitation, the key performance indicators of four perspectives of performance have been selected for the current study.

Furthermore, in order to measure customer satisfaction, this research adopts the SERVQUAL model. The SERVQUAL has also been criticised by saying that it concentrates only on the functional part of a service, it means service delivery process and does not consider the technical aspects (It means what a customer receive from the service transaction) of service (Buavaraporn and Tannock, 2013; Buttle,1996). However, the SERVQUAL is a popular framework to measure customer satisfaction in the service industries (Ladhari, 2009) although it has been criticised.

This researcher uses a non-probability sampling, hence, caution must be taken in generalising the findings. In addition, as the random sampling is not used, there is a potential threat to be biased in selecting the respondents. Moreover, non-probability sampling does not guarantee the sample to be representative of the population (Sekaran and Bougie, 2016). However, this research selects the participants based on the researcher judgement (Sekaran and Bougie, 2016) on respondents' characteristics, traits, and behaviours.

### 5.8 Conclusion

This chapter has discussed the adopted methodology comprehensively. It started with the research philosophy to determine the philosophical position of the researcher. The philosophical position of the researcher for the current research is positivism. With regards to research methodology, the current research adopts quantitative methodology while the research design falls in the exploratory research. A deductive approach has been adopted for the current research which helps to devise the research questions, objectives, and the hypotheses. In terms of methods, this research collects primary data by using questionnaire and secondary data from the sampled banks annual reports. Later, the data have been organised and summarised by descriptive statistics. In order to compare the variables between Islamic banks and conventional banks and to see the statistical significance of the difference between the variables, the inferential statistics has been adopted by using SPSS. Finally, the adopted methodology for the current research is deemed to be successful as the chosen methodology is in line with the previous research methodology in the field and under the guidance of the methodological books.

# CHAPTER SIX

# EXPLORING THE PERFORMANCE OF ISLAMIC BANKS AND CONVENTIONAL BANKS IN BANGLADESH: A DESCRIPTIVE ANALYSIS

# CHAPTER SIX

# EXPLORING THE PERFORMANCE OF ISLAMIC BANKS AND CONVENTIONAL BANKS IN BANGLADESH: A DESCRIPTIVE ANALYSIS

## 6.1 Introduction

This chapter describes and summarises the collected raw data in a meaningful way through descriptive statistics. It enables the analysis of the performance of Islamic banks and conventional banks to be carried out in a comparative manner in the next chapter seven. As mentioned in the previous chapter four that this study views the banks' performance from four aspects. Therefore, data descriptions include customer satisfaction, employee satisfaction, internal business process, and financial performance of Islamic banks and conventional.

Moreover, this chapter has been divided into six sections. Following the introductory first section, section 6.2 deals with the respondents' profile. Section 6.3 describes and summarises the data on customer satisfaction of Islamic banks and conventional banks. Section 6.4 describes and summarises the data on employee satisfaction of Islamic banks and conventional banks. Section 6.5 describes and summarises the data on the internal business process of Islamic banks and conventional banks. Section 6.6 describes and summarises the data on the financial performance of Islamic banks and conventional banks, and finally section 6.7 concludes the chapter.

## 6.2 Profile of Respondents

This section describes the respondents' demographic information that includes age, sex, occupation, and marital status. The demographic information of the respondents has been analysed by using the frequency distribution of descriptive statistics.

6.2.1 Profiling of Customers

**Table 6.1 Age Group Distribution of the Customers of Islamic and Conventional Banks**

| Age of the Respondents | | Type of Banks | | Total |
|---|---|---|---|---|
| | | Islamic Bank | Conventional Bank | |
| | Below 20 | 0 | 1 | 1 |
| | 21-30 | 40 | 70 | 110 |
| | 31-40 | 75 | 62 | 137 |
| | 41-50 | 65 | 35 | 100 |
| | Above 50 | 19 | 31 | 50 |
| Total | | 199 | 199 | 398 |

It is evident from Table 6.1 that there is no respondent aged below twenty in the case of Islamic banks. However, a respondent has been found under conventional banks who aged below 20. Seventy-five respondents (38% of the total respondents shown in Figure 6.1) being the majority falls in the age group of 31-40 in relation to Islamic banks. By contrast, the majority of the respondents being 31% of the total respondents shown in Figure 6.1 have been found in the age group of 21-30 with regards to conventional banks. It suggests that the majority of the respondents for both banking systems range from 21-40.

The second majority of the respondents are in the age group of 41-50 which is sixty-five respondents being 32.66% of the total respondents under Islamic banks, whereas the second majority (sixty-two respondents) of the respondents are from conventional banks falls in the age group of 31-40 which is 31.16% of the total respondents.

Moreover, nineteen respondents from Islamic banks comprise about 10% of the total respondents aged above fifty years of old while 16% of the total respondents aged above fifty years of old in the case of conventional banks.

Figure 6.1 Distribution of the Age of Customers

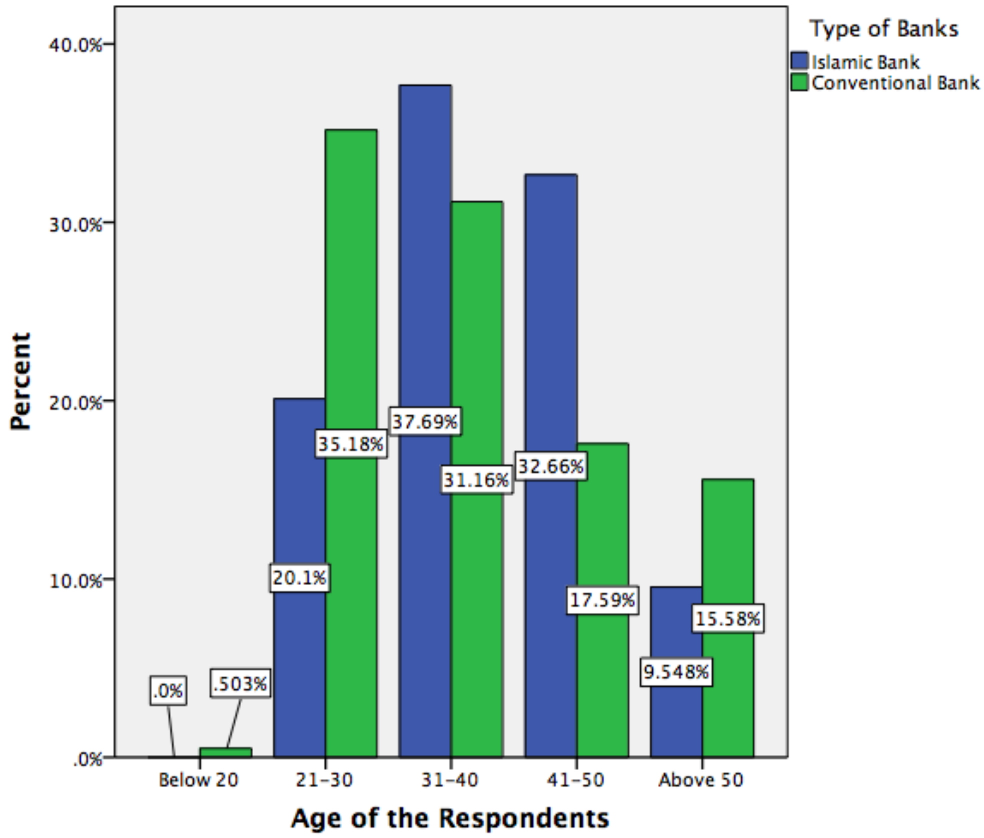



**Table 6.2 Gender of the Customers of Islamic and Conventional Banks**

| Gender of the Respondents | | Type of Banks | | Total |
|---|---|---|---|---|
| | | Islamic Bank | Conventional Bank | |
| | Male | 163 | 150 | 313 |
| | Female | 37 | 49 | 86 |
| Total | | 200 | 199 | 399 |

According to Table 6.2 and Figure 6.2, the majority of the respondents are male for both types of the banking system. There are 163 respondents are male who represent 81.5% of the total respondents whereas 37 respondents being 18.5% of the total are found to be female in the case of Islamic banks. However, in terms of conventional banks, 150 respondents are male who represent 75.38% of the total respondents while 49 respondents are female being 24.62% of the total respondents.

Figure 6.2 Distribution of Gender of Customers

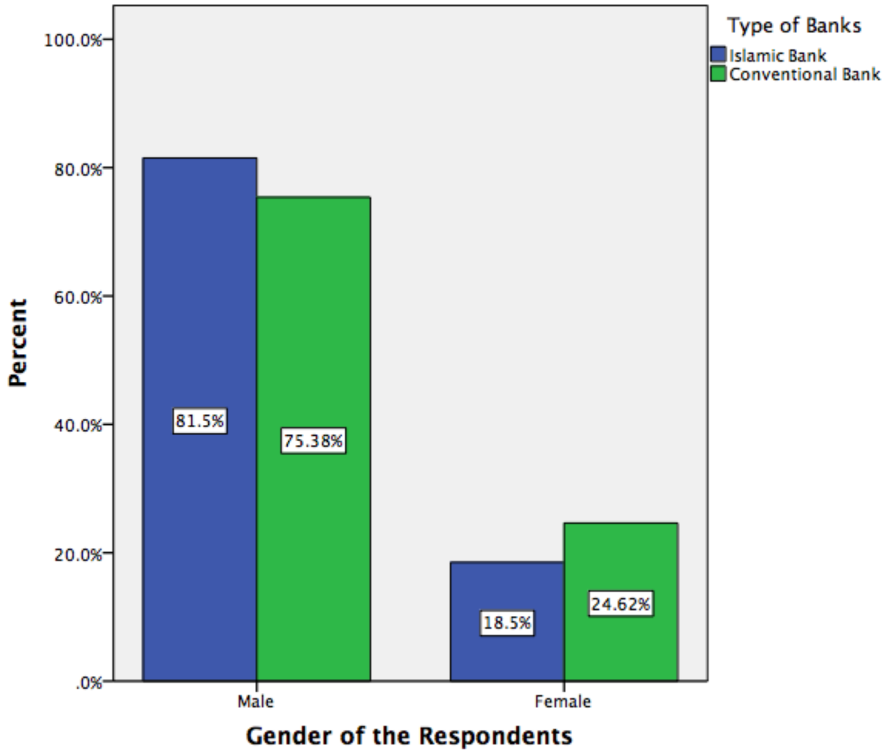



**Table 6.3 Marital Status of the Customers of Islamic and Conventional Banks**

| Marital Status of the Respondents | | Type of Banks | | Total |
|---|---|---|---|---|
| | | Islamic Bank | Conventional Bank | |
| | Single | 46 | 64 | 110 |
| | Married | 151 | 123 | 274 |
| | Widow | 3 | 9 | 12 |
| Total | | 200 | 196 | 396 |

Table 6.3 indicates that the majority of the respondents are married for both types of banks Islamic and conventional. On one hand, in the case of Islamic banks, there are 151 respondents who represent 75.5% (Figure 6.3) of the total respondents. Similarly, 123 respondents are married and it is 62.76 % of the total respondents in respect of Conventional banks. On the other hand, 46 respondents (23% of the total) from Islamic banks and 64 respondents (32.65% of the total) from conventional banks are single. Very few respondents (three respondents from Islamic banks and nine

respondents are from conventional banks) are the widows. It has also been noticed that the marital status of four respondents from conventional banks is missing.

Figure 6.3 Distribution of the Marital Status of Customers

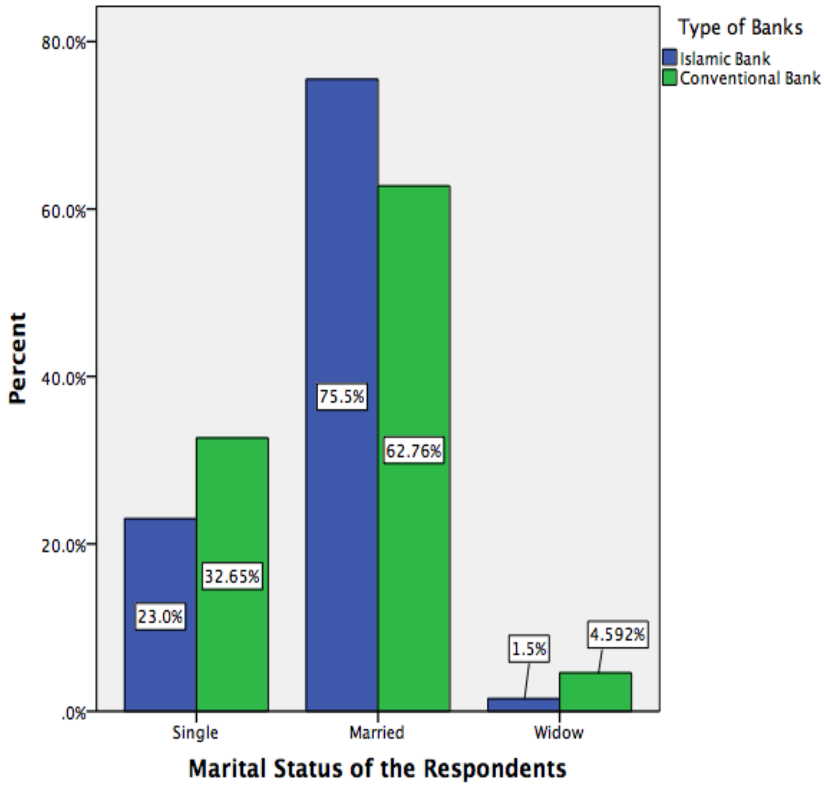
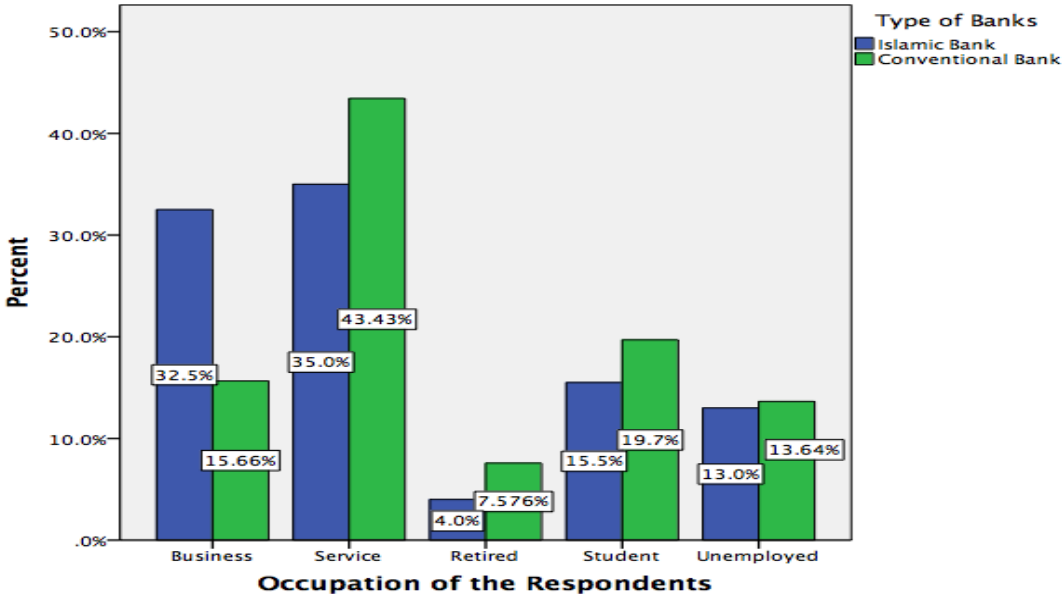


**Table 6.4 Occupation of the Customers of Islamic and Conventional Banks**

| Occupation of the Respondents | | Type of Banks | | Total |
|---|---|---|---|---|
| | | Islamic Bank | Conventional Bank | |
| | Business | 65 | 31 | 96 |
| | Service | 70 | 86 | 156 |
| | Retired | 8 | 15 | 23 |
| | Student | 31 | 39 | 70 |
| | Unemployed | 26 | 27 | 53 |
| Total | | 200 | 198 | 398 |

Table 6.4 and Figure 6.4 show that the occupation of the majority of respondents is service for both Islamic banks and conventional banks. There are 70 respondents being 35% of the total respondents and 86 respondents being 43.43% of the total respondents from Islamic banks and conventional banks respectively are service holder at various organisations. The 65 respondents (32.5%) being the second majority do business in the case of Islamic banks while 31 (15.66%) respondents' profession is business in the case of conventional banks. On the other hand, the least number of respondents from both banking system are retired. It represents 8 respondents (4%) and 15 respondents (7.57%) from Islamic banks and conventional banks respectively. Moreover, 31 respondents (15.5%) and 39 respondents (19.7%) from both Islamic banks and conventional banks respectively are students. Similarly, 26 respondents (13%) and 27 respondents (13.64%) from Islamic banks and conventional banks respectively are unemployed.

Figure 6.4 Distribution of the Occupation of Customers




6.2.2 Profiling of Employees

**Table 6.5 Age of the Employee of Islamic and Conventional Banks**

| Age of the Employees | | Type of Banks | | Total |
|---|---|---|---|---|
| | | Islamic Banks | Conventional Banks | |
| Count | 18-35 | 31 | 37 | 68 |
| | 36-45 | 82 | 74 | 156 |
| | 46-60 | 37 | 39 | 76 |
| | Over 60 | 10 | 10 | 20 |
| Total | | 160 | 160 | 320 |

According to Table 6.5 and Figure 6.5, the majority of the respondents' age range from 36-45 for both Islamic banks and conventional banks. 82 respondents (51.25%) from Islamic banks and 74 respondents (46.25%) from conventional banks are in the age group 36-45. Also, it has been noticed that almost the same number of respondents from both Islamic banks and conventional banks are in the age group 18-35, 46-60, and over 60. There are 31 respondents (19.38%) in the age group 18-35 from Islamic banks while 37 respondents (23.13%) are in the same age groups from conventional banks. Likewise, 37 respondents (23.13%) and 39 respondents

(24.38%) are in the age group 46-60 from Islamic banks and conventional banks respectively. Moreover, there are ten respondents (6.25%) found aged over 60 for both types of baking system.

Figure 6.5 Distribution of the Age of Employees

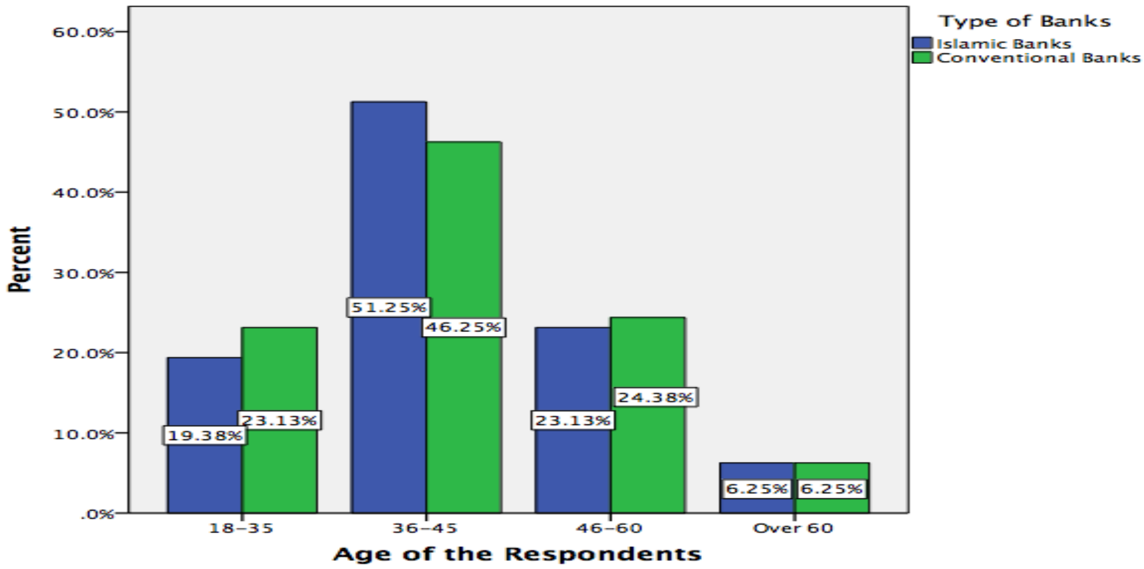



**Table 6.6 Gender of the Employees of Islamic and Conventional Banks**

| Gender of the Employees | Type of Banks | | Total |
|---|---|---|---|
| | Islamic Banks | Conventional Banks | |
| Male | 102 | 104 | 206 |
| Female | 57 | 56 | 113 |
| Total | 159 | 160 | 319 |

Table 6.6 and Figure 6.5 represent that the majority of the respondents are male for both types of banking systems. 102 respondents (64.15%) are male in terms of Islamic banks while 104 respondents (65%) are found to be female in the case of conventional banks. Conversely, in relation to Islamic banks, 57 respondents (35.85%) are female whereas conventional banks have 56 respondents (35%) who are female. It has also been noticed that one respondent has not mentioned the gender preference in the case of Islamic banks.

Figure 6.6 Distribution of the Gender of Employees

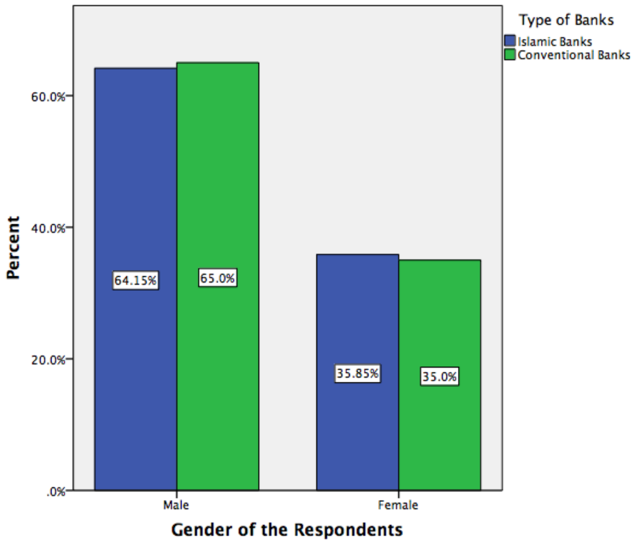
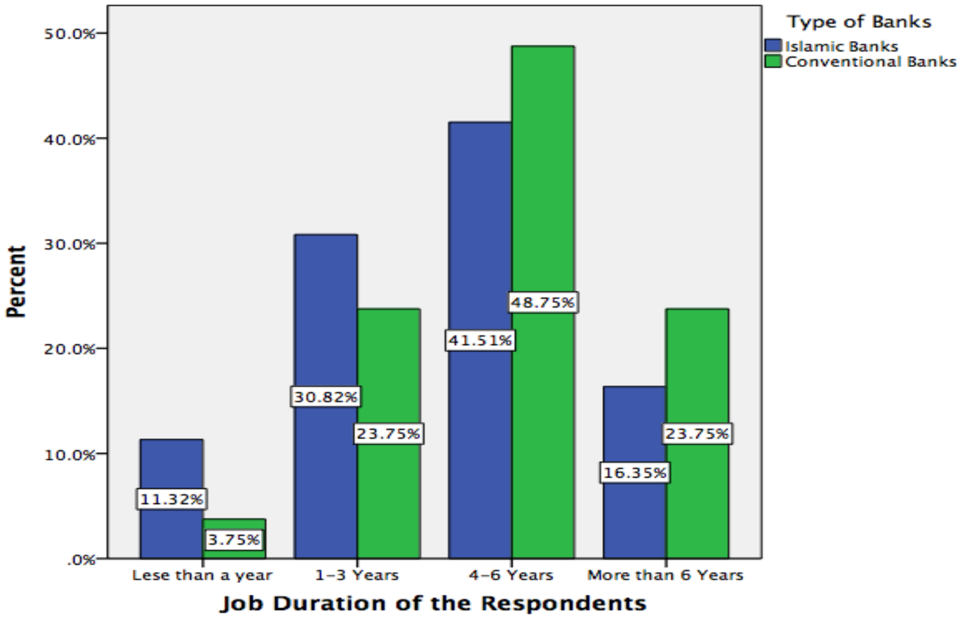



**Table 6.7 Job Duration of the Employee of Islamic and Conventional Banks**

| Job Duration of Employees | | Type of Banks | | Total |
|---|---|---|---|---|
| | | Islamic Banks | Conventional Banks | |
| | Less than a year | 18 | 6 | 24 |
| | 1-3 Years | 49 | 38 | 87 |
| | 4-6 Years | 66 | 78 | 144 |
| | More than 6 Years | 26 | 38 | 64 |
| Total | | 159 | 160 | 319 |

It is evident from Table 6.7 that the majority of respondents at both types of banks Islamic and non-Islamic worked between 4-6 years. It constitutes (Figure 6.7) 41.51% for Islamic banks and 48.75% for conventional banks in terms of the total respondents. The second majority of the respondents that is 30.82% worked between 1-3 years in relation to Islamic banks. In the case of conventional banks, the second highest number of respondents that is 23.75% worked between 1-3 years, and more than six years. However, the least number of respondents worked less than a year for both types of banking systems being 11.32% at Islamic banks and 3.75% at conventional banks. Moreover, it has been noticed that one respondent is missing in the case of Islamic banks.

Figure 6.7 Distribution of the Job Duration of Employees




## 6.3 Customer Satisfaction of Islamic Banks and Conventional Banks in Bangladesh

Customer satisfaction is measured based on nine aspects of service quality (SERVQUAL) model presented by Parasuraman et al. (1985, 1988). These aspects are reliability, tangible, responsiveness, competence, knowing customers, courtesy, credibility and security, access, and communication.

Each aspect has one or more than one statement. The respondents' response on each statement was ranked on five-point Likert scale where 1= Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree. The mean values of the respondents' responses under each aspect are analysed as follows.

**Table 6.8 Mean Analysis for Reliability Variable of Islamic Banks**

| Statements | N | Mean | Std. Deviation |
|---|---|---|---|
| Your bank operates according to advertised promise | 200 | 3.87 | .596 |
| Your bank has the ability to perform the promised service accurately and reliably | 199 | 4.00 | .541 |
| Employees are not willing to help customers promptly. | 200 | 2.78 | .998 |
| Valid N (listwise) | 199 | | |
| **Average Mean** | | **3.55** | |

Table 6.8 shows the statements in relation to the reliability aspect of the service quality of Islamic banks. Reliability aspect consists of three statements. The highest mean is 4.00 for the statement that your bank has the ability to perform the promised service accurately and reliably. The lowest mean value is 2.78 for the statement 'the respondent showed disagreement with the statement that employees are willing to help customers promptly'. However, the average mean of reliability is 3.55 out of 5. Islamic banks can maximise their reliability by improving services in relation to the reliability aspect of service quality especially by increasing employees' willingness to help customers promptly.

**Table 6.9 Mean Analysis for Tangibles Variable of Islamic Banks**

| Statements | N | Mean | Std. Deviation |
|---|---|---|---|
| Your bank has an appealing interior design and facilities. | 200 | 3.77 | .630 |
| Your bank has modern IT equipment. For example, cash/cheque deposit machine, Online banking. | 200 | 3.79 | .747 |
| Employees are appeared neat and clean. | 200 | 3.95 | .693 |
| Valid N (listwise) | 200 | | |
| **Average Mean** | | **3.84** | |

Table 6.9 represents three statements in relation to the tangibles dimension of the service quality of Islamic banks. The respondents responded almost equally for all three statements. The highest mean is 3.95 for the statement 'employees are appeared neat and clean' whereas the lowest mean is 3.77 for the statement 'your bank has an appealing interior design and facilities'. However, the average mean for tangible is 3.84 out of 5. The average mean value for tangible indicates that the customers responded just above the neutral point on the five-point scale and Islamic banks can maximise their tangible by improving facilities, interior design, IT facilities, and cleanness of the employees.

**Table 6.10 Mean Analysis for Responsiveness Variable of Islamic Banks**

| Statements | N | Mean | Std. Deviation |
|---|---|---|---|
| Employees have the ability to provide swift services. | 200 | 3.74 | .726 |
| Customers' applications are not processed on time | 200 | 2.66 | .900 |
| Valid N (listwise) | 200 | | |
| **Average Mean** | | **3.20** | |

The responsiveness variable consists of two statements shown in Table 6.10. The respondents scored higher for the statement ‘employees have the ability to provide swift services’ with a mean value of 3.74 than the statement ‘customers' applications are processed on time’ with a mean value of 2.66. However, the average mean for responsiveness variable is 3.20 out of 5. The above findings suggest that Islamic banks could not achieve the highest score due to lack in services in relation to responsiveness that can be improved by processing customers’ application on time and providing customers a swift service.

**Table 6.11 Mean Analysis for Competence Variable of Islamic Banks**

| Statements | N | Mean | Std. Deviation |
|---|---|---|---|
| The products of your bank meet customers' financial (banking) demand | 200 | 3.76 | .754 |
| Employees have the right knowledge to answer customers' queries and problems | 200 | 3.78 | .719 |
| Customers queries and problems are not dealt with sincerely and professionally | 200 | 2.65 | .981 |
| Valid N (listwise) | 200 | | |
| **Average Mean** | | **3.40** | |

Table 6.11 shows three statements in terms of competence aspect of the service quality of Islamic banks. The respondents scored the highest mean value 3.78 for the

statement that employees have the right knowledge to answer customers' queries and problems. By contrast, the respondents scored the lowest for the statement 'customers' queries and problems are dealt with sincerely and professionally'. Nevertheless, the average mean for competence is 3.40 which mean the customers of Islamic banks responded above the neutral point on the five-point scale. To maximise competence, Islamic banks can revise and improve their services with regards to competence aspect of service quality especially by dealing with customers queries and problems sincerely and professionally.

**Table 6.12 Mean Analysis for Knowing Customer Variable of Islamic Banks**

| Statements | N | Mean | Std. Deviation |
|---|---|---|---|
| The employees understand and pay attention to every customers' banking requirements | 200 | 3.66 | .779 |
| The employees have customers' best interest at the heart of their services | 200 | 3.72 | .746 |
| Valid N (listwise) | 200 | | |
| **Average Mean** | | **3.69** | |

Table 6.12 shows the statements in terms of knowing customer aspect of service quality of Islamic banks. The respondents have shown almost the similar attitude towards the statements of knowing customer variable. However, the statement 'the employees have customers' best interest at the heart of their services' scored higher with mean value of 3.72 than the statement 'the employees understand and pay attention to every customers ' with mean value 3.66 which indicates that Islamic banks should increase their services with regards to knowing customers in order to have a higher customer satisfaction.

**Table 6.13 Mean Analysis for Courtesy Variable of Islamic Banks**

| Statements | N | Mean | Std. Deviation |
|---|---|---|---|
| Customers feel that they are respected | 200 | 3.75 | .819 |
| Employees who deal with customers are not friendly to all customers | 200 | 2.96 | .838 |
| Service personnel are polite with all customers | 200 | 3.81 | .685 |
| Valid N (listwise) | 200 | | |
| **Average Mean** | | **3.51** | |

Table 6.13 shows the three statements with regards to the courtesy dimension of service quality of Islamic banks. The highest mean value is 3.81 for the statement ‘service personnel are polite with all customers’. The lowest mean value is 2.96 for the statement ‘employees who deal with customers are not friendly to all customers’. However, the average mean value for the courtesy variable is 3.51 that means the customers of Islamic banks are above the neutral point on the five-point scale. Islamic banks can be more courteous by improving their service in relation to the courtesy aspect of service quality in employees’ friendliness to customers.

**Table 6.14 Mean Analysis for Credibility and Security Variable of Islamic Banks**

| Statements | N | Mean | Std. Deviation |
|---|---|---|---|
| Customer feel safe in their transactions | 200 | 3.87 | .682 |
| Valid N (listwise) | 200 | | |
| **Average Mean** | | **3.87** | |

Table 6.14 has a statement in relation to credibility and security aspect of the service quality of Islamic banks. The mean value is 3.87 out of 5 for the statement ‘customers feel safe in their transactions’. The mean score indicates that the customers of Islamic banks responded between neutral and agree point on the five-point scale.

**Table 6.15 Mean Analysis for Access Variable of Islamic Banks**

| Statements | N | Mean | Std. Deviation |
|---|---|---|---|
| Customers wait in a long queue at the counter | 200 | 3.37 | .887 |
| Customers can contact with the required employee when needed | 200 | 3.65 | .700 |
| The bank can be contacted by telephone or email | 200 | 3.59 | .758 |
| The bank has ATM in convenient locations | 200 | 3.66 | .928 |
| Valid N (listwise) | 200 | | |
| **Average Mean** | | **3.57** | |

The access dimension of the service quality is made up of four statements that have been shown in Table 6.15. The respondents have expressed almost the similar attitude towards the statements. In the mean values comparison test, the highest mean value is 3.66 for the statement 'the bank has ATM in convenient locations' while the lowest mean value is 3.37 for the statement 'customers wait in a long queue at the counter'. However, the average mean for the access dimension of the service quality is 3.57 out of 5. The average mean suggests that Islamic banks can maximise customer satisfaction by improving services in relation to the access aspect of service quality by limiting queuing time at the counter.

**Table 6.16 Mean Analysis for Communication of Islamic Banks**

| Statements | N | Mean | Std. Deviation |
|---|---|---|---|
| The bank does not inform customers regarding the necessary information. | 200 | 2.38 | .933 |
| Valid N (listwise) | 200 | | |
| **Average Mean** | | **2.38** | |

Table 6.16 shows a statement in relation to the communication variable. The mean value for the statement 'The bank does not inform customers regarding the necessary

information' is 2.38 out of 5. It indicates that the respondents expressed a favourable opinion towards this statement. However, Islamic banks can improve performance in communication by providing customers relevant information.

**Table 6.17 Bank Specific Mean Value of Customer Satisfaction Variables of Islamic Banks**

| Banks | Reliability | Tangible | Responsiveness | Competence | Knowing Customers | Courtesy | Credibility | Access | Communication |
|---|---|---|---|---|---|---|---|---|---|
| Al-Arafah | 3.72 | 3.67 | 3.32 | 3.71 | 3.66 | 3.84 | 4.40 | 3.33 | 2.76 |
| EXIM | 3.59 | 3.95 | 3.12 | 3.53 | 2.96 | 3.11 | 3.48 | 3.25 | 2.96 |
| FSIB | 3.56 | 3.72 | 3.38 | 3.33 | 3.68 | 3.49 | 3.96 | 3.72 | 2.64 |
| ICB | 3.66 | 3.83 | 3.16 | 3.09 | 3.96 | 3.60 | 3.64 | 3.34 | 2.04 |
| Islami | 3.73 | 3.76 | 3.56 | 3.64 | 3.46 | 3.52 | 3.76 | 3.50 | 3.12 |
| Shahjalal | 3.57 | 3.77 | 2.90 | 3.12 | 3.72 | 3.49 | 3.64 | 3.51 | 2.16 |
| Social | 3.36 | 3.79 | 3.18 | 3.31 | 3.92 | 3.56 | 4.00 | 3.79 | 1.88 |
| Union | 3.20 | 4.23 | 2.94 | 3.41 | 4.14 | 3.43 | 4.08 | 4.09 | 1.52 |
| **AVE** | **3.55** | **3.84** | **3.20** | **3.39** | **3.69** | **3.51** | **3.87** | **3.57** | **2.39** |

Table 6.17 shows the performance of each Islamic bank in terms of customer satisfaction variables. It is surprising that the majority of the Islamic banks perform the highest in credibility variable of service quality and perform the worst in communication variable. However, Exim bank, Islamic bank, and Union bank perform the best in tangible while ICB bank performs the best in knowing customers.

**Table 6.18 Sector Specific Mean Value of Customer Satisfaction Variables of Islamic Banks**

| Dimensions of SERVQUAL | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Reliability | 200 | 2.33 | 5.00 | 3.5492 | .48044 |
| Tangible | 200 | 2.33 | 5.00 | 3.8383 | .48308 |
| Responsiveness | 200 | 1.50 | 4.50 | 3.1950 | .53704 |
| Competence | 200 | 2.00 | 4.67 | 3.3933 | .49085 |
| Knowing customers | 200 | 2.00 | 5.00 | 3.6875 | .64473 |
| Courtesy Measure | 200 | 1.67 | 5.00 | 3.5050 | .48653 |
| Credibility and Security | 200 | 1.00 | 5.00 | 3.8700 | .68222 |
| Access | 200 | 2.50 | 4.75 | 3.5663 | .45905 |
| Communication | 200 | 1.00 | 5.00 | 2.3850 | .93334 |

Table 6.18 shows all the parameters of service quality that determine customer satisfaction of Islamic banks. It is evident from Table 6.18 and Figure 6.8 that the highest mean value is 3.87 for the credibility and security. By contrast, the lowest mean value is 2.39 for the communication aspect of the service quality. The second highest mean is 3.83 for the parameter tangibles. Apart from the highest and lowest mean value, the rest of the variables have almost the same mean value ranging from 3.20 to 3.69. The lowest mean value for communication variable is due to the poor communication of all the Islamic banks with their customers especially the Union bank and the Social bank where these banks scored a mean value for 1.88 and 1.52 respectively (Table 6.17).

Figure 6.8 Customer Satisfaction Variables of Islamic Banks

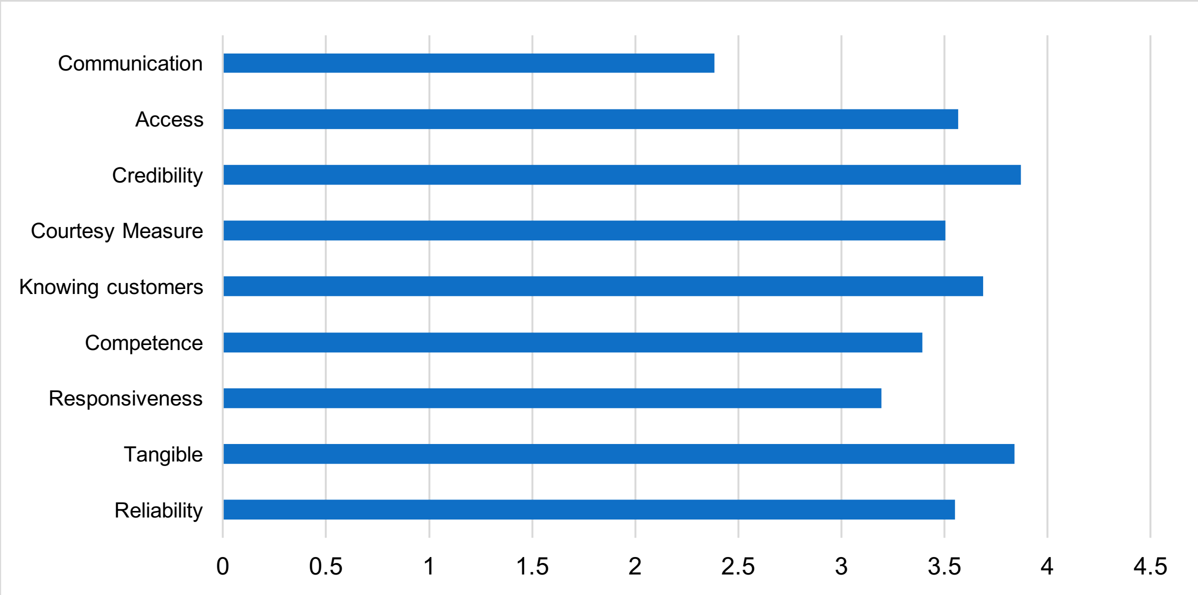



**Table 6.19 Mean Analysis for Reliability of Conventional Banks**

| Statements | N | Mean | Std. Deviation |
|---|---|---|---|
| Your bank operates according to advertised promise | 200 | 3.72 | .804 |
| Your bank has the ability to perform the promised service accurately and reliably | 200 | 3.75 | .805 |
| Employees are not willing to help customers promptly. | 200 | 2.83 | 1.144 |
| Valid N (listwise) | 200 | | |
| **Average Mean** | | 3.43 | |

Table 6.19 represents three statements in relation to reliability dimension of the service quality of conventional banks. As per Table 6.19, the highest mean is 3.75 for the statement 'your bank has the ability to perform the promised service accurately and reliably'. By contrast, the lowest mean is 2.83 for the statement that employees are willing to help customers promptly. However, the average mean value for reliability variable is 3.43 out of 5. Conventional banks can maximum their performance in

relation to reliability by acting as per promised services and increasing employees' willingness to serve the customers.

**Table 6.20 Mean Analysis for Tangibles Variable of Conventional Banks**

| Statements | N | Mean | Std. Deviation |
|---|---|---|---|
| Your bank has an appealing interior design and facilities. | 200 | 3.64 | .924 |
| Your bank has modern IT equipment. For example, cash/cheque deposit machine, Online banking. | 200 | 3.43 | 1.127 |
| Employees are appeared neat and clean. | 200 | 3.84 | .932 |
| Valid N (listwise) | 200 | | |
| **Average Mean** | | **3.64** | |

Table 6.20 represents three statements associated with the tangibles dimension of the service quality of conventional banks. The highest mean is 3.84 for the statement that employees are appeared neat and clean whereas the lowest mean is 3.43 for the statement that your bank has modern IT equipment. However, the average mean for this dimension is 3.64 out of 5. In order to achieve a higher score in tangible, conventional banks should improve the facilities in relation to tangible mentioned in Table 6.20.

**Table 6.21 Mean Analysis for Responsiveness Variable of Conventional Banks**

| Statements | N | Mean | Std. Deviation |
|---|---|---|---|
| Employees have the ability to provide swift services. | 200 | 3.49 | .814 |
| Customers' applications are not processed on time | 200 | 2.89 | 1.091 |
| Valid N (listwise) | 200 | | |
| **Average Mean** | | **3.19** | |

The responsiveness dimension has two statements presented in Table 6.21. According to Table, the respondents agreed more in favour of the statement that employees have the ability to provide swift services with a mean value of 3.49. On the other hand, the respondents expressed a slight disagreement with the statement that customers' applications are processed on time with a mean value of 2.89. However, the average mean for responsiveness variable is 3.19 out of 5. Conventional banks could not achieve the highest score in responsiveness variable due to inefficient services in customer application processing. The responsiveness of conventional banks can be improved by giving more attention to customers queries and expectations.

**Table 6.22 Mean Analysis for Competence Variable of Conventional Banks**

| Statements | N | Mean | Std. Deviation |
|---|---|---|---|
| The products of your bank meet customers' financial demand | 200 | 3.84 | .807 |
| Employees have the right knowledge to answer customers' queries and problems | 200 | 3.65 | .742 |
| Customers queries and problems are not dealt with sincerely and professionally | 200 | 2.97 | 1.032 |
| Valid N (listwise) | 200 | | |
| **Average Mean** | | 3.49 | |

Table 6.22 represents the three statements associated with competence aspect of the service quality of conventional banks. The highest mean value is 3.84 for the statement that the products of your bank meet customers' financial demand. On the other hand, the respondents showed a slight disagreement with the statement that customers’ queries and problems are dealt with sincerely and professionally with a mean value of 2.97. However, the average mean for competence is 3.49 out of 5. In order to achieve the highest score, conventional banks should improve services associated with competence especially in dealing with customers queries and problems.

**Table 6.23 Mean Analysis for Knowing Customers Variable of Conventional Banks**

| Statements | N | Mean | Std. Deviation |
|---|---|---|---|
| The employees understand and pay attention to every customer's banking requirements | 200 | 3.28 | .926 |
| The employees have customers' best interest at the heart of their services | 200 | 3.23 | .987 |
| Valid N (listwise) | 200 | | |
| **Average Mean** | | **3.26** | |

According to Table 6.23, the respondents have reacted almost equally towards the statements of knowing customers. The higher mean value is 3.28 for the statement 'the employees understand and pay attention to every customer's banking requirements'. Nevertheless, the average mean for the variable knowing customer is 3.26 out of 5. Conventional banks should pay more attention to customers banking requirements in order to maximise customer satisfaction in terms of knowing customer variable.

**Table 6.24 Mean Analysis for Courtesy Variable of Conventional Banks**

| Statements | N | Mean | Std. Deviation |
|---|---|---|---|
| Customers feel that they are respected | 200 | 3.72 | .758 |
| Employees who deal with customers are not friendly to all customers | 200 | 3.05 | .958 |
| Service personnel are polite with all customers | 200 | 3.70 | .674 |
| Valid N (listwise) | 200 | | |
| **Average Mean** | | 3.49 | |

The courtesy dimension of service quality has three statements shown in Table 6.24. Among the statements, the respondents showed a favorable attitude towards the statement ‘Customers feel that they are respected’ with the mean value 3.72. By contrast, the respondents scored the lowest mean value for the statement ‘Employees who deal with customers are not friendly to all customers’ with the mean value 3.05. However, the average mean for the courtesy dimension is 3.49 out of 5. Conventional banks can improve the performance in the courtesy variable being more friendly and polite in dealing with customers.

**Table 6.25 Mean Analysis for Credibility and Security Variable of Conventional Banks**

| Statement | N | Mean | Std. Deviation |
|---|---|---|---|
| Customers feel safe in their transactions | 200 | 4.06 | .607 |
| Valid N (listwise) | 200 | | |
| **Average Mean** | | **4.06** | |

Table 6.25 shows the statement in relation to the credibility and security aspect of the service quality of conventional banks. The mean value is 4.06 for the statement ‘Customers feel safe in their transactions’.

**Table 6.26 Mean Analysis for Access Variable of Conventional Banks**

| Statements | N | Mean | Std. Deviation |
|---|---|---|---|
| Customer waits in a long queue at the counter | 200 | 3.51 | 1.080 |
| Customer can contact with the required employee when needed | 200 | 3.35 | 1.001 |
| The bank can be contacted by telephone or email | 200 | 3.40 | .946 |
| The bank has ATM in convenient locations | 200 | 3.27 | 1.055 |
| Valid N (listwise) | 200 | | |
| **Average Mean** | | 3.38 | |

The access dimension of the service quality comprises of four statements that have been shown in Table 6.26. Similar to Islamic banks, the respondents have expressed almost the same attitude towards the statements ranging from 3.27 to 3.51. In the mean comparison test, the highest mean value is 3.51 for the statement 'Customers wait in a long queue at the counter' while the lowest mean value is 3.27 for the statement 'The bank has ATM in convenient locations'. However, the average mean for the access variable of the service quality is 3.38 out of 5. Conventional banks can improve customer satisfaction in relation to access variable by improving services its associated areas shown in Table 6.26.

**Table 6.27 Mean Analysis for Communication Variable of Conventional Banks**

| Statement | N | Mean | Std. Deviation |
|---|---|---|---|
| The bank does not inform customers regarding the necessary information. | 200 | 2.73 | 1.206 |
| Valid N (listwise) | 200 | | |
| **Average Mean** | | **2.73** | |

Table 6.27 shows the statement in relation to the communication aspect of service quality of conventional banks. The mean value is 2.73 for the statement that the bank does not inform customers regarding the necessary information'. It indicates that the respondents slightly agree towards this statement. Conventional banks should provide more information to their customers in order to maximise customer satisfaction in terms of access variable.

**Table 6.28 Bank Specific Mean Value of Customer Satisfaction Variables of Conventional Banks**

| Banks | Reliability | Tangible | Responsiveness | Competence | Knowing Customers | Courtesy | Credibility | Access | Communication |
|---|---|---|---|---|---|---|---|---|---|
| Agrani | 3.01 | 2.93 | 2.96 | 3.32 | 2.74 | 3.43 | 3.84 | 3.14 | 2.44 |
| Brack | 3.87 | 4.11 | 3.40 | 3.60 | 3.28 | 3.45 | 4.08 | 3.36 | 3.52 |
| Dhaka | 3.57 | 3.46 | 3.48 | 3.51 | 3.78 | 3.61 | 3.80 | 3.46 | 2.80 |
| Duch-Bangla | 3.80 | 4.01 | 3.48 | 3.43 | 3.56 | 3.52 | 3.96 | 3.62 | 3.60 |
| IFIC | 3.67 | 3.69 | 2.56 | 3.71 | 2.62 | 3.48 | 4.16 | 2.98 | 2.64 |
| Mercantile | 3.17 | 4.21 | 1.84 | 3.39 | 4.02 | 3.63 | 4.32 | 4.15 | 1.52 |
| Prime | 3.36 | 3.74 | 2.72 | 3.75 | 3.56 | 3.72 | 4.60 | 3.55 | 3.24 |
| Sonali | 3.01 | 2.65 | 2.72 | 3.19 | 2.52 | 3.05 | 3.72 | 2.81 | 2.08 |
| **AVE** | **3.43** | **3.60** | **2.90** | **3.49** | **3.26** | **3.49** | **4.06** | **3.38** | **2.73** |

Table 6.28 shows the individual conventional bank's performance on each aspect of service quality. Agrani bank performs the best in credibility and the worst in communication. Likewise, Brack bank performs the best in tangible and the worst in knowing customer, Dhaka bank performs the best in credibility and the worst in communication, Duch-Bangla bank performs the best in tangible and the worst in competence. IFIC bank performs the best in credibility and the worst in responsiveness, Mercantile bank performs the best in credibility and the worst in communication. Prime bank performs the best in credibility and the worst in responsiveness. Lastly, Sonali bank performs the best in credibility and the worst in communication.

The above discussion suggests that the majority of the conventional banks perform superior in credibility and inferior in communication.

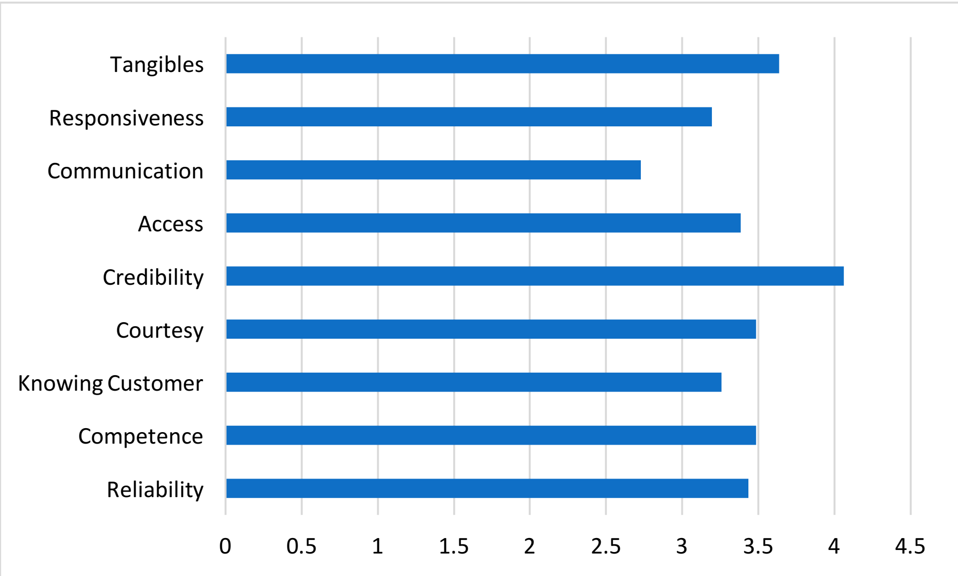
**Table 6.29 Sector Specific Mean Value of Customer Satisfaction Variables of Conventional Banks**

| Dimensions of SERVQUAL | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Reliability | 200 | 1.33 | 5.00 | 3.4333 | .68239 |
| Competence | 200 | 2.33 | 5.00 | 3.4850 | .51423 |
| Knowing Customer | 200 | 1.00 | 5.00 | 3.2600 | .86524 |
| Courtesy | 200 | 2.00 | 5.00 | 3.4867 | .49996 |
| Credibility | 200 | 1.00 | 5.00 | 4.0600 | .60683 |
| Access | 200 | 2.25 | 4.75 | 3.3838 | .57365 |
| Communication | 200 | 1.00 | 5.00 | 2.7300 | 1.20597 |
| Responsiveness | 200 | 1.50 | 5.00 | 3.1950 | .66080 |
| Tangibles | 200 | 1.67 | 5.00 | 3.6350 | .80312 |

Table 6.29 represents all the parameters of service quality that determine customer satisfaction of the conventional banks. As per Table 6.29 and Figure 6.9, the highest

mean value is 4.06 for the credibility and security variable. By contrast, the lowest mean value is 2.73 for the communication variable of the service quality. The second highest mean is 3.64 (rounded into two decimal places) for the tangibles dimension. Apart from the highest and lowest mean value, the rest of the variables range from 3.20 to 3.49 (rounded into two decimal places).

Figure 6.9 Customer Satisfaction Variables of Conventional Banks




## 6.4 Employee Satisfaction of Islamic Banks and Conventional Banks in Bangladesh

Employee satisfaction is measured based on eleven aspects of job satisfaction which are devised by reviewing the existing literature (discussed in chapter 3.3.1) on employee satisfaction and classical motivational theories presented by Herzberg (1982) and Maslow (1954). These aspects of job satisfaction are supervision, company policy, training, working conditions and environment, remuneration, promotion, recognition, the job itself, relationship, workload, and participation.

The respondents were asked one or more than one questions on each aspect of satisfaction. Then the response of the respondents on each question was ranked on five-point Likert scale where 1= Highly Dissatisfied, 2 = Dissatisfied, 3 = Neutral, 4 = Satisfied, 5 = Highly Satisfied. The mean value of the respondents' responses under each aspect is analysed as follows:

**Table 6.30 Mean Analysis for Supervision Aspect of Employee Satisfaction of Islamic Banks**

| How satisfied are you with | N | Mean | Std. Deviation |
|---|---|---|---|
| Management and leadership skill of your immediate supervisor | 160 | 3.91 | .879 |
| Conflict resolution skills of your immediate supervisor | 160 | 3.76 | .983 |
| Communication between the employees and immediate supervisor | 160 | 3.94 | .787 |
| Management and leadership skill of your directors or expert body | 160 | 3.92 | .824 |
| Valid N (listwise) | 160 | | |
| **Average Mean** | | **3.88** | |

Table 6.30 shows the four questions in relation to the supervision aspect of the employee satisfaction of Islamic banks. According to Table 6.30, the respondents are satisfied most with communication between the employees and immediate supervisor with the mean value of 3.94. Then the respondents are satisfied with the management and leadership skill of directors or expert body with a second highest mean value of 3.92. The respondents are least satisfied with the conflict resolution skills of their immediate supervisor with a mean value of 3.76. However, the average mean for supervision is 3.88 out of 5.

**Table 6.31 Mean Analysis for Company Policy Aspect of Employee Satisfaction of Islamic Banks**

| How satisfied are you with | N | Mean | Std. Deviation |
|---|---|---|---|
| The policies of the bank | 160 | 3.92 | .997 |
| Valid N (listwise) | 160 | | |
| **Average Mean** | | **3.92** | |

Table 6.31 contains a question regarding company policy aspect of employee satisfaction. The average mean for company policy aspect of employee satisfaction of Islamic bank is 3.92 out of 5. Islamic banks have the opportunity to improve customer satisfaction by improving their policies that accommodate the customers' requirements.

**Table 6.32 Mean Analysis for Training Aspect of Employee Satisfaction of Islamic Banks**

| How satisfied are you with | N | Mean | Std. Deviation |
|---|---|---|---|
| The training programmes in the institution | 160 | 3.44 | .902 |
| The amount of training you received to perform your job | 160 | 2.99 | 1.019 |
| The available opportunities in your work for learning and growth | 160 | 3.43 | .949 |
| Valid N (listwise) | 160 | | |
| **Average Mean** | | **3.29** | |

Table 6.32 comprises of three statements on the training aspect of employee satisfaction of Islamic banks. Among the three statements, the highest mean value is 3.44 for the question that how satisfied are you with the training programmes in the institution? The least mean value is 2.99 for the question 'How satisfied are you with

the amount of training you received to perform your job?'. Nevertheless, the average mean value for the training aspect of employee satisfaction is 3.29 out of 5.

**Table 6.33 Mean Analysis for Working Condition and Environment Aspect of Employee Satisfaction of Islamic Banks**

| How satisfied are you with | N | Mean | Std. Deviation |
|---|---|---|---|
| The access to the facilities necessary for performing your tasks. | 160 | 3.60 | .946 |
| The healthy working condition, for example, clean indoor air, sufficient light, and safety drinking water | 160 | 3.29 | .934 |
| Valid N (listwise) | 160 | | |
| **Average Mean** | | **3.44** | |

Table 6.33 presents two questions in relation to the working condition and environment aspect of employee satisfaction of Islamic banks. It is evident from Table 6.33 that the highest mean value is 3.60 for the question that how satisfied are you with the access to the facilities necessary for performing your tasks? The lowest mean value is 3.29 for the question 'How satisfied are you with the healthy working condition, for example, clean indoor air, sufficient light, and safety drinking water?'. However, the average mean is for working condition and environment aspect is 3.44 out of 5.

**Table 6.34 Mean Analysis for Remuneration Aspect of Employee Satisfaction of Islamic Banks**

| How satisfied are you with | N | Mean | Std. Deviation |
|---|---|---|---|
| Your salary | 160 | 3.24 | .943 |
| Your salary as compared to external comparable banks. | 160 | 2.96 | .842 |
| The reward system for extraordinary performance. | 160 | 2.94 | .837 |
| Valid N (listwise) | 160 | | |
| **Average Mean** | | **3.05** | |

Table 6.34 consists of three questions associated with the remuneration aspect of the employee satisfaction of Islamic banks. The highest mean value is 3.24 for the question 'How satisfied are you with your salary?' The respondents scored lowest for the question 'How satisfied are you with the reward system for extraordinary performance?' with a mean value of 2.94. Nonetheless, the average mean for the remuneration aspect of employee satisfaction of Islamic banks is 3.05 out of 5.

**Table 6.35 Mean Analysis for Promotion Aspect of Employee Satisfaction of Islamic Banks**

| How satisfied are you with | N | Mean | Std. Deviation |
|---|---|---|---|
| Your career progression opportunity at the company | 160 | 3.36 | .908 |
| Valid N (listwise) | 160 | | |
| **Average Mean** | | **3.36** | |

Table 6.35 contains the question regarding the promotion aspect of employee satisfaction of Islamic banks. The employees were asked about how satisfied they are with their career progression opportunity at the bank. The average mean value for promotion variable is 3.36 out of 5.

**Table 6.36 Mean Analysis for Recognition Aspect of Employee Satisfaction of Islamic Banks**

| How satisfied are you with | N | Mean | Std. Deviation |
|---|---|---|---|
| Company's recognition for your better performance | 160 | 3.58 | .843 |
| Valid N (listwise) | 160 | | |
| **Average Mean** | | **3.58** | |

Table 6.36 shows the question associated with the recognition aspect of employee satisfaction of Islamic banks. The employees were asked to score on how satisfied they are with the company's recognition for their better performance. The average mean value for recognition aspect is 3.58 out of 5.

**Table 6.37 Mean Analysis for The Job Itself Aspect of Employee Satisfaction of Islamic Banks**

| How satisfied are you with | N | Mean | Std. Deviation |
|---|---|---|---|
| The work (the job is according to your expectation) | 160 | 3.86 | .784 |
| Valid N (listwise) | 160 | | |
| **Average Mean** | | **3.86** | |

Table 6.37 represents the question in terms of the job itself aspect of employee satisfaction of Islamic banks. The respondents are asked to score on the question that how satisfied they are with their work. The average mean for the job itself aspect is 3.86 out of 5.

**Table 6.38 Mean Analysis for Relationship Aspect of Employee Satisfaction of Islamic Banks.**

| How satisfied are you with | N | Mean | Std. Deviation |
|---|---|---|---|
| The involvement of colleagues with other competencies in your work | 160 | 3.83 | .856 |
| The respect from your co-workers or colleagues | 160 | 3.84 | .931 |
| The teamwork in your sector | 160 | 3.56 | 1.068 |
| The relationships between employees in general? | 160 | 3.66 | 1.002 |
| Valid N (listwise) | 160 | | |
| **Average Mean** | | **3.72** | |

Table 6.38 comprises of four questions associated with the relationship aspect of employee satisfaction of Islamic banks. It is evident from Table 6.38 that the respondents scored highest for the question that how satisfied are you with respect from your co-workers or colleagues with a mean value of 3.84. Then, the respondents scored slightly less for the second highest mean value which is 3.83 for the regarding the involvement of colleague with other competencies. The lowest mean value is 3.56 for the question 'How satisfied are you with the teamwork in your sector?'. However, the average mean is 3.72 out of 5t for the relationship aspect of employee satisfaction of Islamic banks.

**Table 6.39 Mean Analysis for Workload Aspect of Employee Satisfaction of Islamic Banks**

| How satisfied are you with | N | Mean | Std. Deviation |
|---|---|---|---|
| The number of employees available to perform the work in your department | 160 | 3.42 | .851 |
| The bank's expectation on the amount of work you need to perform | 160 | 3.29 | .864 |
| The working hours of the bank | 160 | 3.52 | .832 |
| Valid N (listwise) | 160 | | |
| **Average Mean** | | **3.41** | |

Table 6.39 has three questions in relation to workload aspect of employee satisfaction of Islamic banks. As illustrated in Table 6.39, the respondents scored highest in favour of the question that how satisfied are you with the working hours of the bank with a mean value 3.52. The lowest mean score is 3.29 for the question 'How satisfied are you with the bank's expectation on the amount of work you need to perform?'. However, the average mean is 3.41 for the workload aspect of employee satisfaction.

**Table 6.40 Mean Analysis for Participation Aspect of Employee Satisfaction of Islamic Banks**

| How satisfied are you with | N | Mean | Std. Deviation |
|---|---|---|---|
| The participation in the management meeting | 160 | 3.33 | .963 |
| The possibility to elaborate your opinion on different work-related aspects? | 160 | 3.28 | .992 |
| Valid N (listwise) | 160 | | |
| **Average Mean** | | **3.31** | |

Table 6.40 shows two questions about the participation aspect of employee satisfaction of Islamic banks. According to Table 6.40, the respondents scored almost

the same value for both questions. The highest mean value is 3.33 for the question 'How satisfied are you with the participation in the management meeting?' while the lowest mean is 3.28 for the question 'How satisfied are you with the possibility to elaborate your opinion on different work-related aspects?'. However, the average mean is 3.31 for the participation aspect of employee satisfaction.

**Table 6.41 Bank Specific Mean Value of Employee Satisfaction Variables of Islamic Banks**

| Banks Name | Super -vision | Company Policy | Training | Working-Condition | Remune-ration | Promotion | Recogni tion | Job itself | Relation-ship | Work-load | Partici pation |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Al-Arafah | 3.81 | 3.60 | 3.78 | 3.67 | 3.52 | 3.50 | 3.65 | 3.90 | 4.05 | 3.62 | 4.05 |
| EXIM | 4.01 | 4.55 | 2.62 | 3.25 | 2.75 | 2.85 | 3.65 | 3.7 | 3.14 | 3.42 | 2.85 |
| FSIB | 4.20 | 4.35 | 3.4 | 3.78 | 3.00 | 3.75 | 4.25 | 4.65 | 4.36 | 3.68 | 3.53 |
| ICB | 3.64 | 3.35 | 3.32 | 3.28 | 2.83 | 3.70 | 3.35 | 3.60 | 3.64 | 3.40 | 3.25 |
| Islami | 3.99 | 4.15 | 3.75 | 3.78 | 3.57 | 3.05 | 3.50 | 3.95 | 4.10 | 3.13 | 3.40 |
| Shahjalal | 3.60 | 3.75 | 3.47 | 3.38 | 2.90 | 3.55 | 3.90 | 3.80 | 3.98 | 3.45 | 3.43 |
| Social | 4.01 | 4.35 | 3.18 | 3.23 | 3.10 | 3.20 | 3.10 | 3.75 | 3.26 | 3.10 | 2.80 |
| Union | 3.80 | 3.25 | 2.78 | 3.23 | 2.70 | 3.30 | 3.25 | 3.50 | 3.26 | 3.48 | 3.15 |
| **Ave-Mean** | **3.88** | **3.92** | **3.29** | **3.44** | **3.04** | **3.36** | **3.04** | **3.86** | **3.72** | **3.41** | **3.31** |

Table 6.41 presents the performance of individual Islamic bank on each aspect of job satisfaction. At Al-Arafah bank, employees are most satisfied in relation to workload and participation and least satisfied with the promotion. Likewise, employees are most satisfied with supervision and least satisfied with remuneration at EXIM bank and FSIB bank. Employees are most satisfied with company policy at Islamic banks and Social banks while least satisfied with the promotion in Islami bank, and least satisfied with participation in Social bank. At FSIB bank, employees are most satisfied with recognition and least satisfied with remuneration whereas at ICB bank, employees are most satisfied with promotion and least satisfied with remuneration.

The performance of the individual banks discussed above indicates that the majority of the employees are most satisfied with supervision and least satisfied with remuneration and promotion.

**Table 6.42 Sector Specific Mean Value of Employee Satisfaction Variables of Islamic Banks**

| Variables | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Supervision | 160 | 2.25 | 5.00 | 3.8828 | .67928 |
| Company Policy | 160 | 1.00 | 5.00 | 3.9187 | .99667 |
| Training | 160 | 1.00 | 5.00 | 3.2875 | .79348 |
| Working- Conditions | 160 | 1.50 | 5.00 | 3.4438 | .79104 |
| Remuneration | 160 | 1.67 | 5.00 | 3.0458 | .72827 |
| Promotion | 160 | 1.00 | 5.00 | 3.3625 | .90760 |
| Recognition | 160 | 1.00 | 5.00 | 3.5813 | .84282 |
| Job_Itself | 160 | 2.00 | 5.00 | 3.8562 | .78385 |
| Relationship | 160 | 1.50 | 5.00 | 3.7234 | .79285 |
| Workload | 160 | 1.67 | 5.00 | 3.4104 | .67523 |
| Participation | 160 | 1.00 | 5.00 | 3.3063 | .87413 |

Table 6.42 shows all the aspects of employee satisfaction of Islamic banks. As illustrated in Table 6.42 and figure 6.10, the respondents scored the highest mean that is 3.9187 for the company policy aspect whereas the lowest mean is 3.0458 for remuneration aspect. The second highest mean is 3.8828 for the supervision aspect. Apart from the highest and lowest mean value, the respondents scored between 3.2875 and 3.8562 for the rest of the aspects of employee satisfaction.

**Figure 6. 10** Employee Satisfaction Variables of Islamic Banks

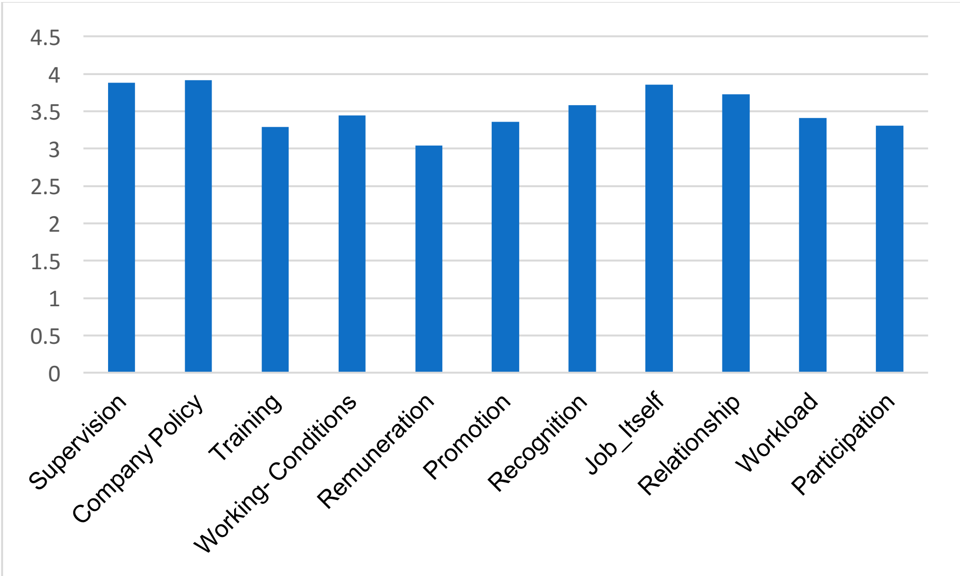



**Table 6.43 Mean Analysis for Supervision Aspect of Employee Satisfaction of Conventional Banks**

| How satisfied are you with | N | Mean | Std. Deviation |
|---|---|---|---|
| Management and leadership skill of your immediate supervisor. | 160 | 3.78 | .949 |
| Conflict resolution skills of your immediate supervisor. | 160 | 3.64 | .908 |
| Communication between the employees and the immediate supervisor. | 160 | 3.75 | .904 |
| Management and leadership skill of your directors or expert body. | 160 | 3.74 | .960 |
| Valid N (listwise) | 160 | | |
| **Average Mean** | | **3.73** | |

Table 6.43 presents the four questions associated with the supervision aspect of the employee satisfaction of conventional banks. As illustrated in Table 6.43, the employees are satisfied most with the management and leadership skill of their immediate supervisor with the mean value of 3.78. Then the employees are satisfied with the communication between employees and immediate supervisor with the second highest mean value of 3.92. The employees are least satisfied with the conflict resolution skills of their immediate supervisor with a mean value of 3.64. However, the average mean for supervision is 3.88 out of 5.

**Table 6.44 Mean Analysis for Company Policy Aspect of Employee Satisfaction of Conventional Banks**

| How satisfied are you with | N | Mean | Std. Deviation |
|---|---|---|---|
| The policies of the bank | 160 | 3.62 | 1.057 |
| Valid N (listwise) | 160 | | |
| **Average Mean** | | **3.62** | |

Table 6.44 shows the question regarding company policy aspect of employee satisfaction of conventional banks. The question is how satisfied are you with the policies of the bank? The average mean for company policy is 3.62 out of 5.

**Table 6.45 Mean Analysis for Training Aspect of Employee Satisfaction of Conventional Banks**

| How satisfied are you with | N | Mean | Std. Deviation |
|---|---|---|---|
| The training programmes in the institution | 160 | 3.28 | .868 |
| The amount of training you received to perform your job | 160 | 2.81 | 1.037 |
| The available opportunities in your work for learning and growth | 160 | 3.08 | 1.009 |
| Valid N (listwise) | 160 | | |
| **Average Mean** | | 3.06 | |

Table 6.45 includes three statements on the training aspect of employee satisfaction of Islamic banks. Among the three statements, the highest mean value is 3.28 for the question that how satisfied you are with the training programmes in the institution. The lowest mean value is 2.81 for the question 'How satisfied you are with the amount of training you received to perform your job'. However, the average mean value is 3.06 out of 5 for the training aspect of employee satisfaction.

**Table 6.46 Mean Analysis for the Working Condition and Environment Aspect of Employee Satisfaction of Conventional Banks**

| How satisfied are you with | N | Mean | Std. Deviation |
|---|---|---|---|
| Access to the facilities necessary for performing your tasks. | 160 | 3.36 | 1.043 |
| The healthy working condition, for example, clean indoor air, sufficient light, and safety drinking water | 160 | 3.13 | 1.035 |
| Valid N (listwise) | 160 | | |
| **Average Mean** | | **3.25** | |

Table 6.46 contains two questions regarding working condition and environment aspect of employee satisfaction of conventional banks. According to Table 6.46, the highest mean is 3.36 for the question that how satisfied you are with access to the facilities necessary for performing your tasks. The lowest mean value is 3.13 for the question ‘How satisfied are you with the healthy working condition, for example, clean indoor air, sufficient light, and safety drinking water?’. However, the average mean is for working condition and environment aspect is 3.25 out of 5.

**Table 6.47 Mean Analysis for Remuneration Aspect of Employee Satisfaction of Conventional Banks**

| How satisfied are you with | N | Mean | Std. Deviation |
|---|---|---|---|
| Your salary | 160 | 2.92 | 1.003 |
| Your salary as compared to external comparable banks. | 160 | 2.64 | .864 |
| The reward system for extra ordinary performance. | 160 | 2.70 | .867 |
| Valid N (listwise) | 160 | | |
| **Average Mean** | | **2.75** | |

Table 6.47 comprises of three questions associated with the remuneration aspect of the employee satisfaction of conventional banks. Among the questions, the highest mean value is 2.92 for the question ‘How satisfied are you with your salary?’. The respondents scored lowest for the question ‘How satisfied are you with your salary as compared to external comparable banks?’ with a mean value of 2.64. However, the average mean for the remuneration aspect is 2.75 out of 5. The average mean value suggests that conventional banks should increase remuneration for their employees in order to maximise employee satisfaction.

**Table 6.48 Mean Analysis for Promotion Aspect of Employee Satisfaction of Conventional Banks**

| How satisfied are you with | N | Mean | Std. Deviation |
|---|---|---|---|
| Your career progression opportunity at the company | 160 | 3.04 | 1.075 |
| Valid N (listwise) | 160 | | |
| **Average Mean** | | **3.04** | |

Table 6.48 shows the question regarding the promotion aspect of employee satisfaction of conventional banks. The employees were asked about how satisfied are they with their career progression opportunity at the bank. The average mean value for the promotion aspect is 3.04 that means respondents responded on slightly above the neutral point of a five-point scale.

**Table 6.49 Mean Analysis for Recognition Aspect of Employee Satisfaction of Conventional Banks**

| How satisfied are you with | N | Mean | Std. Deviation |
|---|---|---|---|
| Company's recognition for your better performance | 160 | 3.46 | .768 |
| Valid N (listwise) | 160 | | |
| **Average Mean** | | **3.46** | |

Table 6.49 shows the question regarding recognition aspect of employee satisfaction of conventional banks. The employees were presented to score on how satisfied are they with company's recognition for their better performance. The average mean value for recognition aspect is 3.46 out of 5.

**Table 6.50 Mean Analysis for the Job Itself Aspect of Employee Satisfaction of Conventional Banks**

| How satisfied are you with | N | Mean | Std. Deviation |
|---|---|---|---|
| The work | 160 | 3.32 | .975 |
| Valid N (listwise) | 160 | | |
| **Average Mean** | | 3.32 | |

Table 6.50 shows the question associated with the job itself variable of employee satisfaction of conventional banks. The employees were asked to score on the question that how satisfied you are with the work. The average mean for the job itself variable is 3.32 that suggests the employees of conventional banks have dissatisfaction in some aspects of their job and hence, conventional banks could not score the maximum score in this variable.

**Table 6.51 Mean Analysis for Relationship Aspect of Employee Satisfaction of Conventional Banks**

| How satisfied are you with | N | Mean | Std. Deviation |
|---|---|---|---|
| The involvement of colleagues with other competencies in your work. | 160 | 3.70 | .823 |
| The respect from your co-workers or colleagues. | 160 | 3.89 | .774 |
| The teamwork in your sector. | 160 | 3.37 | 1.232 |
| The relationships between employees in general? | 160 | 3.62 | 1.002 |
| Valid N (listwise) | 160 | | |
| **Average Mean** | | **3.65** | |

Table 6.51 presents the four questions in terms of the relationship aspect of employee satisfaction of conventional banks. It is evident from Table that the respondents scored highest for the question that how satisfied are you with the respect from your co-workers or colleagues with a mean value of 3.89. Then, the respondents scored the second highest score 3.70 for the question that how satisfied are you with the involvement of colleague with other competencies in your work. The lowest mean value is 3.37 for the question 'How satisfied are you with the teamwork in your sector?'. However, the average mean is 3.65 out of 5 for the relationship aspect of employee satisfaction of conventional banks.

**Table 6.52 Mean Analysis for Workload Aspect of Employee Satisfaction of Conventional Banks**

| How satisfied are you with | N | Mean | Std. Deviation |
|---|---|---|---|
| The number of employees available to perform the work in your department | 160 | 3.57 | .943 |
| The bank's expectation on the amount of work you need to perform | 160 | 3.27 | .859 |
| The working hours of the bank | 160 | 3.43 | .936 |
| Valid N (listwise) | 160 | | |
| **Average Mean** | | 3.42 | |

Table 6.52 comprises of three questions in relation to workload aspect of employee satisfaction of conventional banks. As shown in Table 6.52, the respondents scored highest in favour of the question that how satisfied are you with the number of employees available to perform the work in your department with a mean value of 3.57. The least mean score is 3.27 for the question 'How satisfied are you with the bank's expectation on the amount of work you need to perform?'. Nevertheless, the average mean is 3.42 out of 5 for the workload aspect of employee satisfaction.

**Table 6.53 Mean Analysis for Participation Aspect of Employee Satisfaction of Conventional Banks**

| How satisfied are you with | N | Mean | Std. Deviation |
|---|---|---|---|
| The participation in the management meeting | 160 | 3.08 | 1.040 |
| The possibility to elaborate your opinion on different work-related aspects? | 160 | 2.92 | .971 |
| Valid N (listwise) | 160 | | |
| **Average Mean** | | 3.00 | |

Table 6.53 contains two questions in relation to the participation aspect of employee satisfaction of conventional banks. According to Table 6.53, the highest mean value is 3.08 for the question 'How satisfied are you with the participation in the management meeting?' while the least mean is 2.92 for the question 'How satisfied are you with the possibility to elaborate your opinion on different work-related aspects?'. However, the average mean is 3.00 out of 5 for the participation aspect of employee satisfaction.

**Table 6.54 Bank Specific Mean Value of Employee Satisfaction Variables of Conventional Banks**

| Banks | Super-vision | Company Policy | Training | Working-Condition | Remune-ration | Promotion | Recognition | Job itself | Relation-ship | Work-load | Participation |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Agrani | 3.69 | 4.20 | 2.35 | 2.88 | 2.48 | 2.55 | 3.55 | 3.70 | 3.06 | 3.63 | 2.50 |
| Brack | 3.85 | 3.05 | 3.25 | 3.20 | 2.82 | 3.15 | 3.60 | 3.80 | 4.10 | 3.47 | 3.35 |
| Dhaka | 3.91 | 3.70 | 3.42 | 3.75 | 3.30 | 3.60 | 3.65 | 3.40 | 4.00 | 3.93 | 3.45 |
| Duch-Bangla | 3.70 | 2.95 | 3.20 | 3.73 | 2.90 | 2.70 | 3.45 | 2.45 | 4.09 | 2.78 | 3.03 |
| IFIC | 3.36 | 3.45 | 3.27 | 3.05 | 2.57 | 3.40 | 3.25 | 3.15 | 3.28 | 3.18 | 3.10 |
| Mercantile | 3.96 | 4.50 | 3.10 | 3.18 | 2.85 | 2.50 | 3.10 | 3.65 | 3.14 | 3.52 | 2.53 |
| Prime | 3.60 | 3.25 | 3.07 | 3.30 | 2.58 | 3.35 | 3.15 | 2.75 | 3.66 | 3.25 | 3.25 |
| Sonali | 3.75 | 3.85 | 2.78 | 2.90 | 2.53 | 3.05 | 3.95 | 3.70 | 3.84 | 3.62 | 2.80 |
| **Ave-Mean** | **3.73** | **3.62** | **3.05** | **3.25** | **2.75** | **3.04** | **3.46** | **3.33** | **3.65** | **3.42** | **3.00** |

Table 6.54 presents bank-specific performance on the aspects of job satisfaction. According to Table 6.54, the employees of Agrani bank are most satisfied with company policy and least satisfied with training. Similarly, employees are most

satisfied with relationship and least satisfied with remuneration at Brack bank and Dhaka bank. Employees are most satisfied with company policy at IFIC bank and Mercantile bank while least satisfied with job-itself at Duch-Bangla bank, and remuneration at IFIC bank. At Mercantile bank, employees are most satisfied with company policy and least satisfied with promotion. Additionally, employees are most satisfied with relationship and least satisfied with remuneration at Prime bank, and most satisfied with recognition and least satisfied with training in Sonali bank.

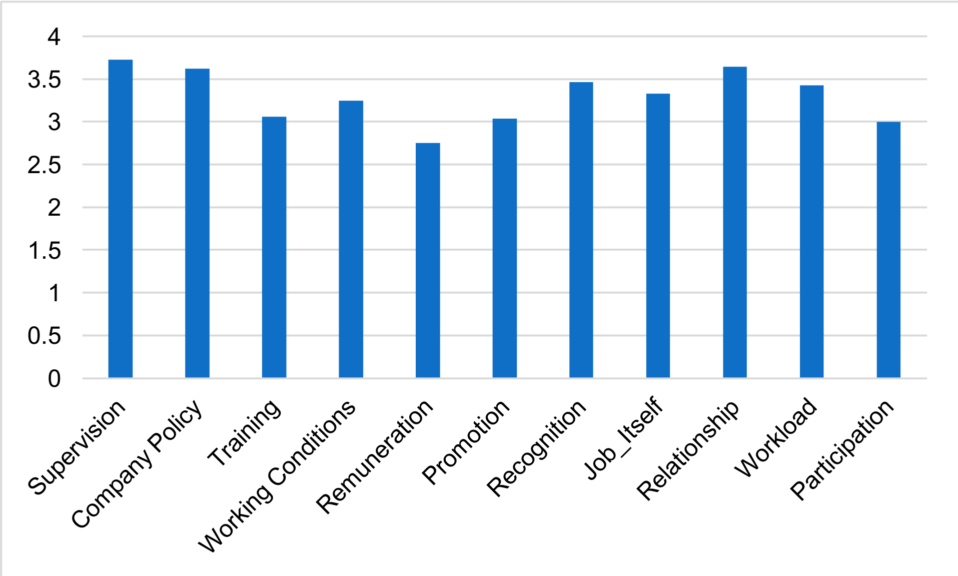
The reflection to the above analysis is that the majority of the conventional banks perform higher in terms of the company policy variable of job satisfaction and perform lower with regards to remuneration.

**Table 6.55 Sector Specific Mean Value of Employee Satisfaction Variables of Conventional Banks**

| Variables | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Supervision | 160 | 2.25 | 5.00 | 3.7281 | .74257 |
| Company Policy | 160 | 1.00 | 5.00 | 3.6187 | 1.05730 |
| Training | 160 | 1.00 | 4.67 | 3.0552 | .79997 |
| Working Conditions | 160 | 1.50 | 5.00 | 3.2469 | .85781 |
| Remuneration | 160 | 1.00 | 4.67 | 2.7542 | .78016 |
| Promotion | 160 | 1.00 | 5.00 | 3.0375 | 1.07509 |
| Recognition | 160 | 2.00 | 5.00 | 3.4625 | .76797 |
| Job-Itself | 160 | 1.00 | 5.00 | 3.3250 | .97484 |
| Relationship | 160 | 1.50 | 5.00 | 3.6453 | .74789 |
| Workload | 160 | 1.00 | 5.00 | 3.4229 | .71787 |
| Participation | 160 | 1.00 | 5.00 | 3.0000 | .85782 |

Table 6.55 shows all the aspects of employee satisfaction of conventional banks. According to Table 6.55 and Figure 6.11, the respondents scored the highest mean that is 3.73 for the supervision aspect whereas the lowest mean is 2.75 for the remuneration aspect. The second highest mean is 3.65 for the relationship aspect. Apart from the highest and lowest mean value, the respondents scored between 3.62 and 3.00 for the rest of the aspects of employee satisfaction.

Figure 6.11 Employee Satisfaction Variables of Conventional Banks




**6.5 Internal Business Process of Islamic Banks and Conventional Banks in Bangladesh**

The Internal business process aspect of performance is measured by focusing the operation management process (productivity and growth in credit) and customer management process. As per operation management process, the productivity growth and credit growth of Islamic banks and convention banks are shown in Table 6.52 and 6.53 respectively. In terms of the customer management process, customers' complaints, complaint response time, and complaint resolution time have been considered that are described below.

**Table 6.56 Productivity and Credit Growth of Islamic Banks**

| Banks | Productivity Growth (%) | Credit Growth (%) |
|---|---|---|
| Al-Arafa | .7851 | .2093 |
| Exim | -.1033 | .1309 |
| First Security | -.7540 | .2064 |
| ICB | .0668 | .0178 |
| Islamic | -.0772 | .1644 |
| Shajalal | .0415 | -.1074 |
| Social | .0109 | .2982 |
| Union | .1168 | .4728 |
| **Average** | **0.0108** | **0.1690** |

Table 6.56 shows the productivity and credit growth of Islamic banks. The productivity and the credit growth have been calculated based on the year 2015 and 2016. It is evident from Table that Union bank has the highest (11.7%) productivity rate followed by Al-Arafa bank (7.8%), ICB bank (6.7%), Shajalal bank (4.2%), and Social bank (1.1%) while Exim bank (-.1033), First Security banks (-.7540), and Islamic bank (-.0772) have a negative productivity growth. In terms of credit growth, Union bank has the highest (4.7%) growth while Shajalal bank has the lowest (-1.1%) growth.

**Table 6.57 Productivity and Credit Growth of Conventional Banks**

| Banks | Productivity Growth (%) | Credit Growth (%) |
|---|---|---|
| Agrani | -.2324 | .1038 |
| Brack | .0390 | .1459 |
| Dhaka | .2344 | .1471 |
| Duch Bangla | -.1004 | -.8698 |
| IFIC | -.0787 | -.0974 |
| Marcentile | -.0965 | -.1133 |
| Prime | -.4730 | .1129 |
| Sonali | -.2433 | .1492 |
| **Average** | **-0.118872125** | **-0.052699737** |

Table 6.57 presents the productivity growth and credit growth of conventional banks. According to Table 6.57, Dhaka bank has the highest (2.3%) productivity growth. The second highest productivity growth belongs to Brack bank while the six other banks which are Agrani bank, Duch Bangla bank, IFIC bank, Marcentile bank, Prime bank, and Sonali bank have a negative productivity growth. In terms of credit growth, Sonali bank (1.49%) has the highest credit growth. The second highest credit growth belongs to Dhaka bank (1.47%) while the other three banks which are Duch Bangla bank, IFIC bank, and Marcentile bank have the lowest (negative) credit growth.

**Table 6.58 Customers' Complaint of Islamic Banks.**

| Customers Responses | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| | Yes | 85 | 42.5 | 42.5 | 42.5 |
| Valid | No | 115 | 57.5 | 57.5 | 100.0 |
| | Total | 200 | 100.0 | 100.0 | |

Table 6.58 shows the feedback of respondents of Islamic banks on the question 'Have you ever complained regarding the banking services with your current bank?'. According to Table 6.58, eighty-five respondents who represent 42.5 % of the total respondents complained about the banking services, while 57.5% of the respondents did not complain.

**Table 6.59 Bank Specific Customers Satisfaction Level on Complaint Initial Response Time and Complaint Resolution Time of Islamic Banks**

| Banks | Complaint Initial Response Time | Complaint Resolution Time | Average |
|---|---|---|---|
| Al- Arafah | 3.25 | 3.38 | 3.31 |
| EXIM | 2.63 | 3.00 | 2.81 |
| FSIB | 3.63 | 3.63 | 3.63 |
| ICB | 3.00 | 3.63 | 3.31 |
| Islami | 3.67 | 3.67 | 3.67 |
| Shahjalal | 3.00 | 3.44 | 3.22 |
| Social | 3.00 | 3.10 | 3.05 |
| Union | 2.93 | 3.57 | 3.25 |
| **Sector Average** | **3.14** | **3.43** | **3.28** |

Table 6.59 shows the bank-specific performance of Islamic banks in internal business process variables complaint initial response time and complaint resolution time. In terms of complaint initial response time, Islamic bank scored the highest and Union bank scored the lowest. Similarly, with regards to complaint resolution time, Islamic bank scored the highest and EXIM bank scored the lowest.

**Table 6.60 Customers Satisfaction Level on Complaint Initial Response Time of Islamic Banks.**

| Customers' Feedback | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Highly Dissatisfied | 1 | .5 | 1.2 | 1.2 |
| Dissatisfied | 11 | 5.5 | 12.9 | 14.1 |
| Neutral | 57 | 28.5 | 67.1 | 81.2 |
| Satisfied | 14 | 7.0 | 16.5 | 97.6 |
| Highly Satisfied | 2 | 1.0 | 2.4 | 100.0 |
| Total Complaints | 85 | 42.5 | 100.0 | |
| No Complaint | 115 | 57.5 | | |
| Total Respondents | 200 | 100.0 | | |

Table 6.60 represents customer satisfaction level on their complaint initial response time taken by Islamic banks. It is evident from Table 6.60 that 85 respondents who represent 42.5% of the total respondents surveyed complained regarding the banking services. The customers who complained (42.5%) further shown in Figure 6.12 to distribute their feedback on five areas from strongly disagree to strongly agree. According to Figure 6.12, the majority of the respondents that is 67% (28.5% of the total respondents surveyed) were neutral about the complaint initial response time. Moreover, 17% (7% of the total respondents) respondents were satisfied while 13% (5.5% of the total respondents) respondents were dissatisfied.

Figure 6.12 Distribution of Customers' Feedback on Islamic Banks' Initial Response Time to Customers' Complain

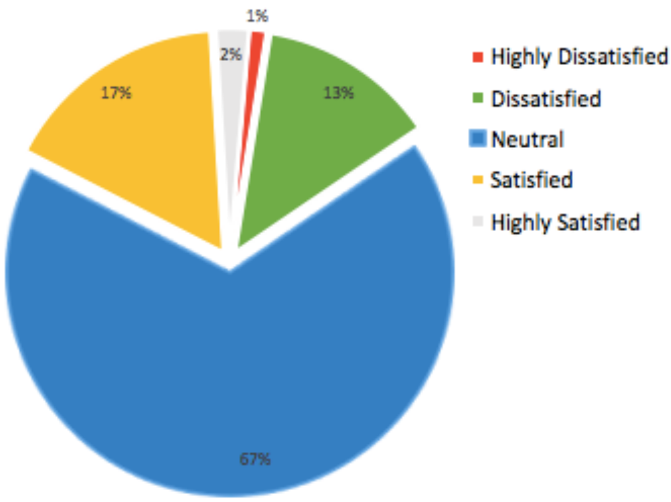


**Table 6.61 Customers Satisfaction Level on Complaint Resolution Time of Islamic Banks.**

| Customers Responses | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Highly Dissatisfied | 1 | .5 | 1.2 | 1.2 |
| | Dissatisfied | 6 | 3.0 | 7.1 | 8.2 |
| | Neutral | 38 | 19.0 | 44.7 | 52.9 |
| | Satisfied | 38 | 19.0 | 44.7 | 97.6 |
| | Highly Satisfied | 2 | 1.0 | 2.4 | 100.0 |
| | Total Complaints | 85 | 42.5 | 100.0 | |
| | No Complaint | 115 | 57.5 | | |
| Total Respondents | | 200 | 100.0 | | |

Table 6.61 shows that 38 respondents that comprise 19% of the total 200 respondents are satisfied with the complaint resolution time of Islamic banks while 3% of them are dissatisfied. Similarly, 19% of the respondents who complained are neutral. 42.5% (shown in Table 6.58) of the customers who complained are further shown in Figure 6.13. As per Figure 6.13, the respondents are divided into two major groups that are satisfied and neutral. 45% of the respondents reacted as both satisfied and neutral. On the other hand, 7% of respondents are dissatisfied. Very few respondents who represent 1% of the total respondents were highly dissatisfied in relation to customer complaint resolution.

Figure 6.13 Distribution of Customers' Responses of Islamic Banks on Complaint Resolution time.

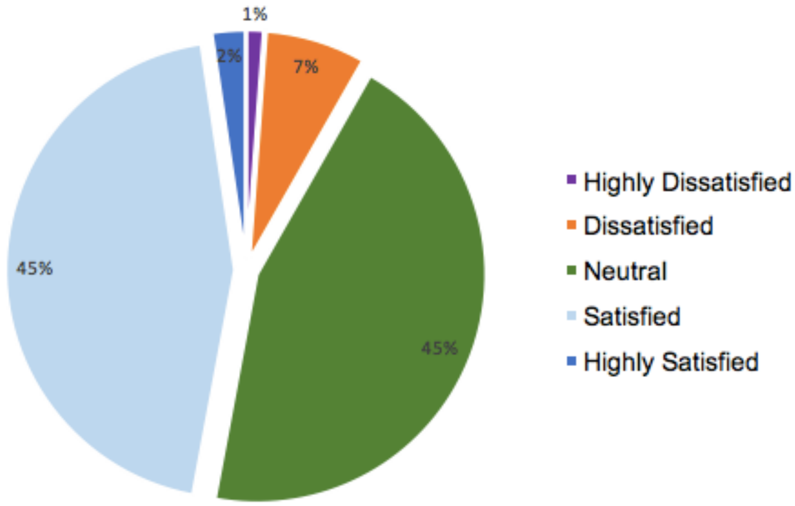



**Table 6.62 Customers' Complaint of Conventional Banks.**

| Have you complained? | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Yes | 46 | 23.0 | 23.0 | 23.0 |
| | No | 154 | 77.0 | 77.0 | 100.0 |
| | Total | 200 | 100.0 | 100.0 | |

Table 6.62 shows the respondents' feedback of conventional banks in relation to the complaint regarding banking services with their current bank. According to Table 6.62, forty-six respondents who represent 23% of the total respondents complained about the banking services while 77% of the respondents did not complain.

**Table 6.63 Bank Specific Customers Satisfaction Level on Complaint Initial Response Time and Complaint Resolution Time of Conventional Banks**

| Banks | Complaint Initial Response Time | Complaint Resolution Time | Average |
|---|---|---|---|
| Agrani | 2.60 | 2.40 | 2.50 |
| Brack | 3.00 | 3.00 | 3.00 |
| Dhaka | 4.00 | 4.00 | 4.00 |
| Duch- Bangla | 3.00 | 3.00 | 3.00 |
| IFIC | 2.80 | 2.40 | 2.60 |
| Mercantile | 3.25 | 4.00 | 3.63 |
| Prime | 3.50 | 3.50 | 3.50 |
| Sonali | 2.57 | 2.29 | 2.43 |
| **Sector Average** | **3.09** | **3.07** | **3.08** |

Table 6.63 presents the bank-specific performance of conventional banks in internal business process variables complaint initial response time and complaint resolution time. In terms of complaint initial response time, Dhaka bank scored the highest and Sonali bank scored the lowest. Similarly, with regards to complaint resolution time, Mercantile bank scored the highest and Sonali bank scored the lowest.

**Table 6.64 Customers Satisfaction Level on Complaint Initial Response Time of Conventional Banks.**

| Customers' Feedback | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Highly Dissatisfied | 3 | 1.5 | 6.5 | 6.5 |
| | Dissatisfied | 6 | 3.0 | 13.0 | 19.6 |
| | Neutral | 20 | 10.0 | 43.5 | 63.0 |
| | Satisfied | 17 | 8.5 | 37.0 | 100.0 |
| | Total Complaints | 46 | 23.0 | 100.0 | |
| | No Complaint | 154 | 77.0 | | |
| Total | | 200 | 100.0 | | |

Table 6.64 represents the customer satisfaction level on their complaint initial response time taken by the conventional banks. According to Table 6.64, forty-six customers that comprise 23% of the total customers surveyed complained regarding

the banking services. This 23% of customers who complained further shown in Figure 6.14 to distribute their feedback on five areas from strongly disagree to strongly agree. According to Figure 6.14, no customer is found who is highly satisfied with the complaint initial response time and the majority of customers that is 43% of the customers surveyed in conventional banks (10% of the total customers surveyed) who were neutral. Moreover, 37% of customers (8.5% of the total customers surveyed) were satisfied while 13% of them (3% of the total customers) were dissatisfied.

Figure 6.14 Distribution of Customers' Feedback of Conventional Banks on Complaint Initial Response Time.

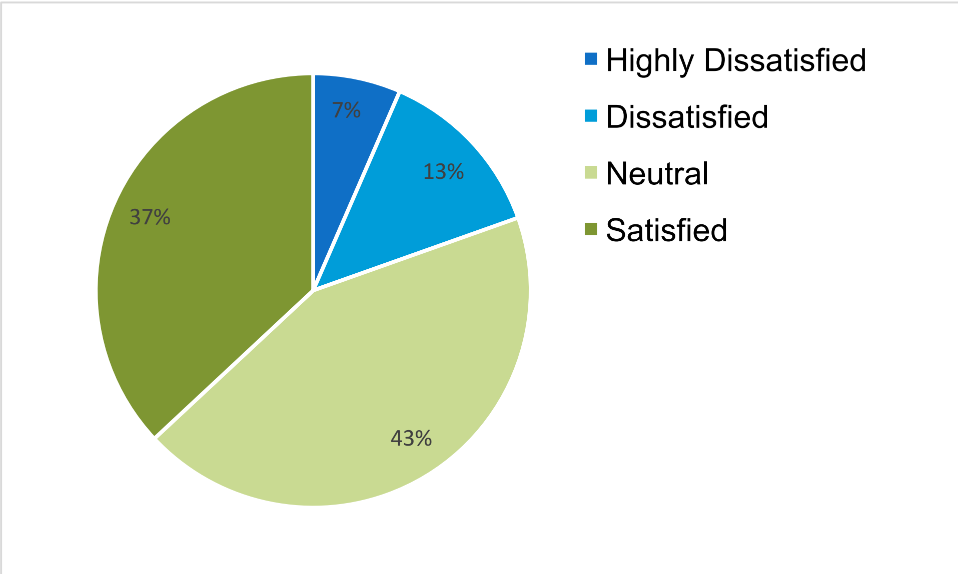
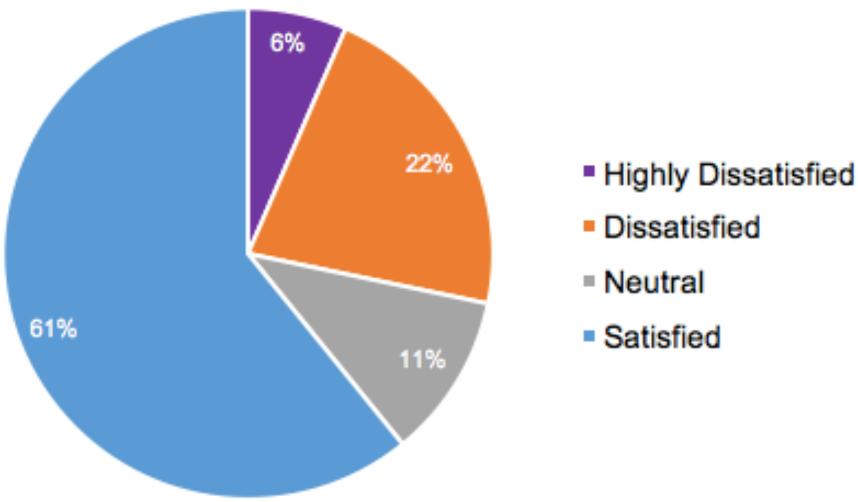


**Table 6.65 Customers' Complaint Resolution Time of Conventional Banks.**

| Customers Responses | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Highly Dissatisfied | 3 | 1.5 | 6.5 | 6.5 |
| | Dissatisfied | 10 | 5.0 | 21.7 | 28.3 |
| | Neutral | 5 | 2.5 | 10.9 | 39.1 |
| | Satisfied | 28 | 14.0 | 60.9 | 100.0 |
| | Total Complaints | 46 | 23.0 | 100.0 | |
| | No Complaint | 154 | 77.0 | | |
| Total Respondents | | 200 | 100.0 | | |

It is evident from Figure 6.15 that no customer is found who is highly satisfied regarding the customers' complaint resolution time. The majority of the customers who complained that comprises of 61% customers (14% of the total 200 customers surveyed shown in Table 6.65) are satisfied while 22% of them (5% of the total respondents) are dissatisfied. Moreover, 11% of customers (2.5% of the total respondents) are neutral.

Figure 6.15 Distribution of Customers' Responses on Resolution time of Customers Complaint of Conventional Banks



## 6.6 Financial Performance of Islamic Banks and Conventional Banks in Bangladesh.

Financial performance is measured by identifying the return on asset (ROA) and return on equity (ROE). The ROA and ROE of Islamic banks and conventional banks have been shown below.

**Table 6.66 Financial Performance of Islamic Banks**

| Banks | Net Profit | Equity | Assets | ROA % | ROE % |
|---|---|---|---|---|---|
| Islamic | 4,479,338,303 | 48,846,454,931 | 797,926,560,214 | .5614 | 9.1702 |
| Al- Arafah | 3,349,401,864 | 21,337,487,935 | 272,900,048,477 | 1.2273 | 15.6973 |
| EXIM | 3,039,764,146 | 26,467,749,116 | 291,133,912,333 | 1.0441 | 11.4848 |
| First Security | 1,410,330,230 | 10,759,836,385 | 301,669,248,374 | .4675 | 13.1074 |
| ICB | -270,843,447 | 10045076732 | 12,257,720,009 | -2.2096 | -2.6963 |
| Shahjalal | 1,669,181,822 | 13,004,235,820 | 170,952,980,821 | .9764 | 11.9759 |
| Social | 2,291,047,837 | 14,193,328,708 | 227,815,302,848 | 1.0057 | 16.1417 |
| Union | 849,609,578 | 6,012,417,436 | 83,917,238,926 | 1.0124 | 24.4845 |
| **Average** | **2,102,228,792** | **19,986,678,668** | **415,907,442,350** | **0.51065** | **12.42068** |

Table 6.66 shows the financial information of Islamic banks which have been considered for the current study to calculate the return on assets (ROA) and return on equity (ROE). As per Table 6.66, the highest ROA is 1.2273%, and it belongs to Al-Arafah bank whereas the lowest ROA is -2.2096% that belongs to ICB bank. On the other hand, the Union bank has the highest ROE that is 24.4845% while the ICB bank has the lowest ROE which is -2.6963%. In both cases (ROA and ROE), the ICB bank has the lowest return. This is because the ICB bank has made a net loss of 270,843,447 for the year 2016. However, the total ROA and ROE for the Islamic banking sector are 0.51% and 12.42 % respectively.

### Table 6.67 Financial Performance of Conventional Banks

| Banks | Net Profit | Equity | Assets | ROA% | ROE% |
|---|---|---|---|---|---|
| Agrani | -6,896,445,282 | 36,575,884,714 | 624,999,163,527 | -1.1034 | -18.8552 |
| Brack | 4,062,139,715 | 23,739,900,813 | 268,324,018,065 | 1.5139 | 17.1110 |
| Dhaka Bank | 1,552,280,224 | 14,914,978,095 | 203,276,912,804 | .7636 | 10.4075 |
| Duch Bangla | 1,762,612,951 | 17,660,158,488 | 276,844,361,224 | .6367 | 9.9807 |
| IFIC | 1,582,530,322 | 13,922,398,818 | 200,251,063,674 | .7903 | 11.3668 |
| Mercantile | 2,227,905,261 | 16,869,329,187 | 205,035,393,990 | 1.0866 | 13.2068 |
| Prime | 2,188,088,351 | 25,293,390,345 | 257,553,393,555 | .8496 | 8.6508 |
| Sonali | 1493265927 | 67,119,211,636 | 1,201,563,310,343 | .1243 | 2.2248 |
| **Average** | **996,547,184** | **27,011,906,512** | **290,897,758,120** | **0.5827** | **6.76165** |

Table 6.67 presents the financial information of conventional banks which have been considered in this study to calculate the ROA and ROE. As shown in Table 6.67, the Brack bank gained the highest ROA that is 1.5139% while Agrani bank has the lowest ROA that is -1.10%. Similarly, the Brack bank has the highest ROE that is 17.11% while Agrani bank has the lowest ROE with -18.86%. Agrani bank has the lowest return in both cases ROA and ROE due to a net loss of 6,896,445,282 for the year 2016. However, the ROA and ROE for the conventional baking sector is .58% and 6.76% respectively.

## 6.7 Conclusion

This chapter comprehensively presented and discussed the primary and secondary data collected by the questionnaire and from the selected banks' annual reports. It has started with the profiling of the respondents and then has presented and discussed the four aspects of banks' performance which are required for the next chapter seven to make a comparative analysis.

# CHAPTER SEVEN

# A COMPARISON OF THE FOUR ASPECTS OF PERFORMANCE AND AN INTERPRETIVE DISCUSSION

# CHAPTER SEVEN

# A COMPARISON OF THE FOUR ASPECTS OF PERFORMANCE AND ANTERPRETIVE DISCUSSION

## 7.1 Introduction

This chapter stems from previous chapter six and compares the performance of Islamic banks with conventional banks in Bangladesh. It presents the mean value for each variable of four aspects of performance in a comparative manner that enables the researcher to compare the variables. It also tests the statistical significance of the variances between the variables by adopting the Mann-Whitney U test and an independent sample t-test.

The chapter comprises of four sections. Section 7.2 presents a comparison of customer satisfaction between Islamic banks and conventional banks. Section 7.3 shows a comparison of employee satisfaction between Islamic banks and conventional banks. Section 7.4 provides a comparison of the internal business process between Islamic banks and conventional banks. Section 7.5 presents a comparison of financial performance between Islamic banks and conventional banks. Finally, section 7.6 concludes the chapter.

## 7.2 A Comparison of Customer Satisfaction between Islamic Banks and Conventional Banks

After organising and summering the customer satisfaction data through descriptive statistics in chapter 6 section 6.3, this section compares the mean value of all variables associated with customer satisfaction between Islamic banks and conventional banks.

Prior to compare the mean values and to test the level of significance of the variances among the customer satisfaction variables, the normality of the data distribution has been tested by using the Kolmogorov-Smirnov test and Shapiro-Wilk shown in Table 7.1.

**Table 7.1 Tests of Normality (Customer Satisfaction Variables)**

| Variables | Type of Banks | Kolmogorov-Smirnov[a] | | | Shapiro-Wilk | | |
|---|---|---|---|---|---|---|---|
| | | Statistic | df | Sig. | Statistic | df | Sig. |
| Reliability | Islamic Banks | .163 | 200 | .000 | .934 | 200 | .000 |
| | Conventional Banks | .127 | 200 | .000 | .964 | 200 | .000 |
| Tangible | Islamic Banks | .156 | 200 | .000 | .947 | 200 | .000 |
| | Conventional Banks | .163 | 200 | .000 | .948 | 200 | .000 |
| Responsiveness | Islamic Banks | .195 | 200 | .000 | .924 | 200 | .000 |
| | Conventional Banks | .249 | 200 | .000 | .851 | 200 | .000 |
| Competence | Islamic Banks | .136 | 200 | .000 | .960 | 200 | .000 |
| | Conventional Banks | .148 | 200 | .000 | .954 | 200 | .000 |
| Knowing Customers | Islamic Banks | .236 | 200 | .000 | .889 | 200 | .000 |
| | Conventional Banks | .204 | 200 | .000 | .912 | 200 | .000 |
| Courtesy Measure | Islamic Banks | .190 | 200 | .000 | .925 | 200 | .000 |
| | Conventional Banks | .140 | 200 | .000 | .950 | 200 | .000 |
| Credibility | Islamic Banks | .346 | 200 | .000 | .787 | 200 | .000 |
| | Conventional Banks | .361 | 200 | .000 | .698 | 200 | .000 |
| Access | Islamic Banks | .127 | 200 | .000 | .970 | 200 | .000 |
| | Conventional Banks | .150 | 200 | .000 | .961 | 200 | .000 |
| Communication | Islamic Banks | .310 | 200 | .000 | .850 | 200 | .000 |
| | Conventional Banks | .258 | 200 | .000 | .876 | 200 | .000 |

None: df = degree of freedom, sig = significance

Table 7.1 suggests that the *p (sig)* value in both tests Kolmogorov-Smirnov and Shapiro-Wilk is less than .05. Therefore, the null hypothesis in terms of normality which is the data are normally distributed has been rejected. It means the data in relation to customer satisfaction variables are not normally distributed. As the data are not normally distributed, a nonparametric test (Mann-Whitney Test) has been deployed to test the level of significance of the variances among the variables which has been shown in Table 7.2.

**Table 7.2 Mann-Whitney U Test (Comparison of Customer Satisfaction's Variables between Islamic Banks and Conventional Banks)**

| Variables | Type of Banks | N | Mean Rank | Sum of Ranks |
|---|---|---|---|---|
| Reliability | Islamic Banks | 200 | 206.78 | 41355.00 |
| | Conventional Banks | 200 | 194.23 | 38845.00 |
| | Total | 400 | | |
| Tangible | Islamic Banks | 200 | 215.58 | 43115.50 |
| | Conventional Banks | 200 | 185.42 | 37084.50 |
| | Total | 400 | | |
| Responsiveness | Islamic Banks | 200 | 213.08 | 42616.50 |
| | Conventional Banks | 200 | 187.92 | 37583.50 |
| | Total | 400 | | |
| Competence | Islamic Banks | 200 | 190.13 | 38026.00 |
| | Conventional Banks | 200 | 210.87 | 42174.00 |
| | Total | 400 | | |
| Knowing Customers | Islamic Banks | 200 | 227.78 | 45555.50 |
| | Conventional Banks | 200 | 173.22 | 34644.50 |
| | Total | 400 | | |
| Courtesy Measure | Islamic Banks | 200 | 204.39 | 40878.00 |
| | Conventional Banks | 200 | 196.61 | 39322.00 |
| | Total | 400 | | |
| Credibility | Islamic Banks | 200 | 185.57 | 37114.00 |
| | Conventional Banks | 200 | 215.43 | 43086.00 |
| | Total | 400 | | |
| Access | Islamic Banks | 200 | 218.81 | 43761.00 |
| | Conventional Banks | 200 | 182.20 | 36439.00 |
| | Total | 400 | | |
| Communication | Islamic Banks | 200 | 185.85 | 37169.50 |
| | Conventional Banks | 200 | 215.15 | 43030.50 |
| | Total | 400 | | |

It is evident from Table 7.2 that the mean rank of reliability of Islamic banks is 206.78 with the sum of ranks (SR) 41355.00 which is higher than the mean rank of reliability of conventional banks which is 194.23 with SR 38845.00. Likewise, the mean rank value of Islamic banks for tangible (215.58) responsiveness (213.08), knowing customers (227.78), courtesy (204.39), and access (218.81) are higher than the mean rank values of conventional banks for tangible (185.42), responsiveness (187.92), knowing customers (173.22), courtesy (196.61), and access (182.20). In the Mann-Whitney U test, the higher the mean rank, the better the performance. Therefore, Islamic banks perform higher in reliability, tangible, responsiveness, knowing customer, courtesy, and access compared to conventional banks.

However, the mean rank value for competence (210.87), credibility (215.43), and the communication (215.15) of conventional are higher than the mean rank value for competence (190.13), credibility (185.57), and communication (185.85) of the Islamic bank. Thus, conventional banks perform higher in competence, credibility, and communication compared Islamic banks.

As there are differences among the variables of customer satisfaction. This research, therefore, intends to see the level of statistical significance of the variances (shown in Table 7.3) in order to validate the claim statistically.

**Table 7.3 Test Statistics (Customer Satisfaction Variables)**

| | Reliability | Tangible | Responsiveness | Competence | Knowing Customers | Courtesy Measure | Credibility | Access | Communication |
|---|---|---|---|---|---|---|---|---|---|
| Mann-Whitney U | 18745.000 | 16984.500 | 17483.500 | 17926.000 | 14544.500 | 19222.000 | 17014.000 | 16339.000 | 17069.500 |
| Wilcoxon W | 38845.000 | 37084.500 | 37583.500 | 38026.000 | 34644.500 | 39322.000 | 37114.000 | 36439.000 | 37169.500 |
| Z | -1.104 | -2.632 | -2.221 | -1.830 | -4.869 | -.690 | -3.119 | -3.209 | -2.682 |
| Asymp. Sig. (2-tailed) | .270 | .009 | .026 | .067 | .000 | .490 | .002 | .001 | .007 |

It is apparent from Table 7.2 that the reliability of Islamic banks has higher mean rank than the reliability of convention banks. However, according to Table 7.3, there is no statistical evidence to support the difference between the two mean rank of reliability variable because U test produced *u = 18745.000, z = -1.104, p = .270 (2-tailed)* where $p > .05$. Therefore, there is no statistically significant difference in the mean rank of reliability between the Islamic bank and the conventional banks.

Similarly, there is no statistically significant difference in the mean rank for competence and courtesy between Islamic banks and conventional banks. It is because the Mann

Whitney U test produced $u$ = 17926.000, $z = -1.830$, $p = .067$ for competence and $u = 19222.000$, $z = -.690$, $p = .490$ for courtesy. As the $p$ value for these variables is higher than .05, there is no statistically significant difference between Islamic banks and conventional banks for the mean rank of competence and courtesy.

However, there are statistically significant difference among the mean ranks for tangible, responsiveness, knowing customer, credibility, access, and communication. The differences are statistically significant because the Mann-Whitney U test produced $u = 16984.500$, $z = -2.632$, $p = .009$ for tangible, $u = 17483.500$ , $z = -2.221$ , $p = .026$ for responsiveness, $u = 14544.500$ , $z = -4.869$ , $p = .000$ for knowing customer, $u = 17014.000$, $z = -3.119$ , $p = .002$ for credibility, $u = 16339.000$ , $z = -3.209$, $p = .001$ for access, and $u = 17069.500$ , $z = -2.682$ , $p = .007$ for communication. The $p$ value for these variable is less than the confidence level .05. Therefore, there are statistically significant difference between the mean rank values for tangible, responsiveness, knowing customer, credibility, access, and communication of Islamic banks and so for conventional banks.

The above analysis suggests that conventional banks perform higher in competence, credibility, and communication variables compared to Islamic banks although there is no statistically significant difference between Islamic banks and conventional banks in terms of competence variable. Conversely, Islamic banks perform higher in reliability, tangible, responsiveness, knowing customer, courtesy, and access compared to conventional banks, but there is no statistically significant difference between Islamic banks and conventional banks with regards to reliability and courtesy variables. So, in comparison, Islamic banks perform higher compared to conventional banks in relation to customer satisfaction leading to accepting the *Hypothesis 1* constructed in chapter four section 4.5.1.

The superior performance of Islamic banks is believed due to the religious influences on customer satisfaction. As mentioned earlier in chapter four, section 4.5.1 that religiosity positively impacts the perceptions of consumers towards the assessment of service quality. The customers of Islamic banks are more likely to focus on the services of Islamic banks which are sensitive to their religion. Muslim customers perceive the service quality based on the Islamic values, rules and regulations such as attention to Islamic religious activities, halal and haram, modesty, honesty, trustworthiness, and humanness to the service quality (Gayatri and Chew, 2013). For example, receiving and paying interest is a sinful act in Islam. When the customers of Islamic banks perceive that they are not involved in dealing with interest, it gives them an intrinsic motivation leading to satisfaction towards the services they receive.

*Salah* (prayer) is one of the compulsory worships in Islam. Thus, all practicing Muslims pray five times a day and love to see other Muslims praying. When the customers of Islamic banks notice that the employees pray in their bank when it is time to pray, it provides the customers with a positive attitude towards the atmosphere of the Islamic banks which can be considered as tangible aspect of the service quality. Likewise, Islam teaches to be polite and modest that the employees of Islamic banks adopt in serving customers. In addition, Islam outlines (Quran, 33:59; 24:30-31) how a Muslim should be dressed. So, when the customers notice the female staff in Islamic bank dressed according to the guideline of the *Shariah* (for example covering their head and wearing a loose-fitting dress that covers the whole body), it positively influences customers' perception towards the tangible aspect of service quality of Islamic banks.

The customers of Islamic banks have less intention to profit earning compared to the customers of conventional banks because of their religiosity. In addition, religiosity makes customers to be loyal to Islamic banks. As a result, the customers of Islamic banks do not switch their bank when Islamic banks provide them with less profit or even no profit at the time of inferior performance. Moreover, religiosity even prepares the customers of Islamic banks to pay fees to receive the *Shariah* compliant financial services.

The facts discussed above enable Islamic banks to score higher in the service quality variables. However, Islamic banks failed to perform higher in competence, credibility, and communication dimensions of the service quality. The Quran (27:9, 2:88,9:34) emphasises honesty at every step of the business transaction. In addition, Muslims employees work based on the notion that good deeds not only bring rewards to the life here but also to the life hereafter. Thus, the employees of Islamic banks tend to work with honesty and sincerity. Although the Islamic *Shariah* places importance on honesty and employees' inclination to work sincerely, Islamic banks failed to score higher in credibility variable compared to conventional banks. This could be the reason of non-compliance of Islamic *Shariah* or customers' lack of knowledge concerning the products or services offered by Islamic banks.

In terms of competence variable, conventional banks scored higher than Islamic banks because the concept of Islamic banking is young as compared to the concept of conventional banking. Thus, Islamic banking products cannot satisfy all the financial demands of customers. Moreover, due to the bank's young age, employees may not have the right knowledge about financial products in order to answer customers' queries. On the other hand, conventional banks have a long established history and a wide range of financial products that fulfil customers' all types of financial demands. As a result, the employees of conventional banks are believed to have wider knowledge to reply to customers' queries leading to establishing a robust communication between Islamic banks and conventional banks. Thus, conventional banks are deemed to score higher in competence and communication variables.

Moreover, it is evident from the literature (For example, Kaplan and Norton, 2001; Heskett et al.,1994; EFQM excellent model, 2013) discussed in chapter two that satisfied employees and a robust internal business process positively impact on customer satisfaction. As employee satisfaction and internal business process of Islamic banks are higher (shown in sections 7.3 and 7.4 in this chapter) than its counterpart conventional banks, these contribute to having higher customer satisfaction for Islamic banks.

Furthermore, the findings of the current research are in line with the study conducted by Ahmad and Safwan (2010) in Pakistan. The study found that the perception of customers of Islamic banks about service quality is higher compared to the perception of customers of conventional banks. Similarly, Saleh (2017) found that the customer satisfaction of Islamic bank with regards to reliability, responsiveness, security, and reputation were considerably higher than those of conventional banks.

The study conducted by Saad (2012) claims that the customers of both conventional and Islamic banks are highly satisfied in terms of competence, responsiveness, and efficiency of service. This study also found that the customers of both types of banking systems are less satisfied with regards to access. Similarly, the study carried out by Lone et al. (2017) in Saudi Arabia found that the customers of both Islamic banks and conventional banks are equally satisfied.

However, Taap et al. (2011) found the customers of conventional banks are more satisfied compared to Islamic banks in terms of Tangible, Reliability, and Convenience. By contrast, the customers of Islamic banks are more satisfied compared to conventional banks in terms of competence. Similarly, Ali et al. (2009) found that the customers of conventional banks are more satisfied compared to the customers of Islamic banks in Malaysia in terms of Assurance, Reliability, Empathy, and Responsiveness.

## 7.3 A Comparison of Employee Satisfaction between Islamic Banks and Conventional Banks

After organising and summering the employee satisfaction data through descriptive statistics in chapter 6, section 6.4, this section compares the mean value of all variables associated with the employee satisfaction between Islamic banks and conventional banks. In order to compare the mean values and to test the statistical significance of the variances among the data, this study intends to see the normality of the data distribution. The normality of the data distribution of the employee satisfaction variables has been tested by employing the Kolmogorov-Smirnov test and Shapiro-Wilk shown in Table 7.5.

### Table 7.4 Tests of Normality (Employee Satisfaction Variables)

| Variables | Type of Banks | Kolmogorov-Smirnov[a] | | | Shapiro-Wilk | | |
|---|---|---|---|---|---|---|---|
| | | Statistic | df | Sig. | Statistic | df | Sig. |
| Supervision | IB | .131 | 160 | .000 | .963 | 160 | .000 |
| | CB | .101 | 160 | .000 | .957 | 160 | .000 |
| Company_Policy | IB | .264 | 160 | .000 | .840 | 160 | .000 |
| | CB | .235 | 160 | .000 | .881 | 160 | .000 |
| Training | IB | .129 | 160 | .000 | .972 | 160 | .003 |
| | CB | .130 | 160 | .000 | .974 | 160 | .004 |
| Working_Conditions | IB | .178 | 160 | .000 | .939 | 160 | .000 |
| | CB | .154 | 160 | .000 | .956 | 160 | .000 |
| Remuneration | IB | .094 | 160 | .002 | .971 | 160 | .002 |
| | CB | .107 | 160 | .000 | .973 | 160 | .003 |
| Promotion | IB | .278 | 160 | .000 | .861 | 160 | .000 |
| | CB | .246 | 160 | .000 | .874 | 160 | .000 |
| Recognisiton | IB | .284 | 160 | .000 | .862 | 160 | .000 |
| | CB | .289 | 160 | .000 | .835 | 160 | .000 |
| The_Job_Itself | IB | .310 | 160 | .000 | .831 | 160 | .000 |
| | CB | .212 | 160 | .000 | .896 | 160 | .000 |
| Relationship | IB | .130 | 160 | .000 | .953 | 160 | .000 |
| | CB | .142 | 160 | .000 | .947 | 160 | .000 |
| Workload | IB | .148 | 160 | .000 | .962 | 160 | .000 |
| | CB | .120 | 160 | .000 | .971 | 160 | .002 |
| Participation | IB | .175 | 160 | .000 | .941 | 160 | .000 |
| | CB | .151 | 160 | .000 | .955 | 160 | .000 |

Note: IB= Islamic Banks, CB= Conventional Banks, df = degree of freedom, sig = significance

Table 7.4 shows that the *p (sig)* values in both tests Kolmogorov-Smirnov *and* Shapiro-Wilk are significantly less than .05. Therefore, the null hypothesis in terms of normality which is the data are normally distributed has been rejected. It means the data in relation to all of the variables of employee satisfaction are not normally distributed. As the data are not normally distributed, a nonparametric test (Mann-Whitney Test) has been deployed to test the level of significance of the variances among the variables shown in Table 7.6.

**Table 7.5 Mann-Whitney U Test (Comparison of Employee Satisfaction Variables between Islamic Banks and Conventional Banks)**

| Variables | Type of Banks | N | Mean Rank | Asymp. Sig. (2-tailed) |
|---|---|---|---|---|
| Supervision | Islamic Banks | 160 | 169.94 | |
| | Conventional Banks | 160 | 151.06 | .066 |
| | Total | 320 | | |
| Company_Policy | Islamic Banks | 160 | 173.48 | |
| | Conventional Banks | 160 | 147.52 | .009 |
| | Total | 320 | | |
| Training | Islamic Banks | 160 | 173.09 | |
| | Conventional Banks | 160 | 147.91 | .014 |
| | Total | 320 | | |
| Working_Conditions | Islamic Banks | 160 | 170.99 | |
| | Conventional Banks | 160 | 150.01 | .039 |
| | Total | 320 | | |
| Remuneration | Islamic Banks | 160 | 176.90 | |
| | Conventional Banks | 160 | 144.10 | .001 |
| | Total | 320 | | |
| Promotion | Islamic Banks | 160 | 173.05 | |
| | Conventional Banks | 160 | 147.95 | .010 |
| | Total | 320 | | |
| Recognition | Islamic Banks | 160 | 167.22 | |
| | Conventional Banks | 160 | 153.78 | .159 |
| | Total | 320 | | |
| The_Job_Itself | Islamic Banks | 160 | 185.39 | |
| | Conventional Banks | 160 | 135.61 | .000 |
| | Total | 320 | | |
| Relationship | Islamic Banks | 160 | 165.87 | |
| | Conventional Banks | 160 | 155.13 | .297 |
| | Total | 320 | | |
| Workload | Islamic Banks | 160 | 159.92 | |
| | Conventional Banks | 160 | 161.08 | .910 |
| | Total | 320 | | |
| Participation | Islamic Banks | 160 | 176.51 | |
| | Conventional Banks | 160 | 144.49 | .002 |
| | Total | 320 | | |

As can be seen in Table 7.5 that Islamic banks have a higher mean rank in all the variables of employee satisfaction except for the workload. The mean rank is 169.94 for the supervision of Islamic banks which is slightly higher than the mean rank 151.06 for the supervision of conventional banks. Similarly, the mean rank values for company policy (173.48) , training (173.09), working condition (170.99), remuneration (176.90), promotion (173.05), recognition (167.22), job itself (185.39), relationship (165.87), and participation (176.51) of Islamic banks are slightly higher than the mean score for company policy (147.52), training (147.91), working condition (150.01), remuneration (144.10), promotion (147.95), recognition (153.78), job itself (135.61), relationship (155.13), and participation (144.49) of conventional banks. However, the mean rank for the workload of conventional banks is 161.08 which is slightly higher than the mean score of Islamic banks which is 159.92. As per the Mann-Whitney U test, the higher the mean rank, the better the performance. Thus, Islamic banks perform superior in the variables that have a higher mean rank and similarly conventional banks perform higher in the variables that have a higher mean rank.

The above discussion suggests that Islamic banks perform higher compared to conventional banks in supervision, company policy, training, working condition, remuneration, promotion, recognition, job itself, relationship, and participation. Conventional banks, however, perform higher compared to Islamic banks in workload. As there are differences among the variables of the employee satisfaction between Islamic banks and conventional banks, this study intends to test the level of statistical significance of the variances among the variables (shown in Table 7.6) in order to validate the claim statistically.

**Table 7.6 Test Statistics (Employee Satisfaction Variables)**

| | Supervision | Company Policy | Training | Working Conditions | Remuneration | Promotion | Recognition | The Job Itself | Relationship | Workload | Participation |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Mann-Whitney U | 11289.000 | 10723.500 | 10785.500 | 11122.000 | 10176.500 | 10792.000 | 11724.500 | 8817.500 | 11941.000 | 12707.000 | 10239.000 |
| Wilcoxon W | 24169.000 | 23603.500 | 23665.500 | 24002.000 | 23056.500 | 23672.000 | 24604.500 | 21697.500 | 24821.000 | 25587.000 | 23119.000 |
| Z | -1.836 | -2.629 | -2.454 | -2.062 | -3.198 | -2.563 | -1.409 | -5.138 | -1.044 | -.114 | -3.145 |
| Asymp. Sig. (2-tailed) | .066 | .009 | .014 | .039 | .001 | .010 | .159 | .000 | .297 | .910 | .002 |

The Mann-Whitney U-test is conducted to see the statistical significance of the variances in the variables of employee satisfaction between Islamic banks and conventional banks. As seen in Table 7.5, Islamic banks (169.94) have a higher mean rank compared to conventional (151.06) banks in terms of supervision which indicates Islamic banks perform higher than conventional banks. However, there is no statistically significant difference between the mean ranks of Islamic banks and conventional bank in relation to supervision. It is because the U test produced *u = 11289.000, z = -1.836, p = .066 (2-tailed)* where *p* > .05.

Similarly, no evidence has been found to support a statistically significant difference between Islamic banks and conventional banks in terms of the mean value for recognition, relationship, and the workload. The difference among these variables are not statistically significantly different because the Mann-Whitney U test produced *u = 11724.500, z = -1.409, p = .159* for recognition; *u = 11941.000 , z = -1.044 , p = .297 for* relationship; and *u = 12707.000 , z = -.114, p = .910* for workload where the *p* value is more than confidence level *.05*.

However, there is a significance difference between the mean rank of company policy of Islamic banks *(*173.48*)* and the conventional banks *(*147.52*)* because U test reveals *u = 10723.500, z = -2.629, p =.009* where *p* < .05*.* Similarly, the mean rank value for training, working conditions, remuneration, promotion, job itself, and participation of Islamic banks and conventional banks are statistically significantly different because Mann-Whitney U test generated *u = 23665.500, z = -2.454, p =.014* for training, *u = 11122.000, z = -2.062, p = .039* for working condition, *u = 10176.500, z = -3.198, p =.001* for remuneration*, u = 10792.000 , z = -2.563, p = 010* for promotion*, u = 8817.500, z = -5.138, p =.000* for job_itself*, u = 10239.000, z = -3.145, p = .002* for participation where the *p* value of the U test for these variables are less than the confidence level *0.05*.

The above discussion indicates that Islamic banks perform higher compared to conventional banks in supervision, company policy, training, working condition, remuneration, promotion, recognition, job itself, relationship, and participation. However, there is no statistically significant difference between Islamic banks and conventional banks in terms of supervision, recognition, and relationship. In addition, conventional banks perform higher in workload compared to Islamic banks although there is no statistically significant difference between Islamic banks and conventional banks in terms of workload variable. So, the employees of Islamic banks are more satisfied compared to the employees of conventional banks which accepted the *Hypothesis 2* constructed in chapter four, section 4.5.2.

The superior performance of Islamic banks compared to conventional banks in supervision variable is believed due to employees' religiosity. Islamic belief and teachings are at the heart of Islamic leadership. A leader in Islam not only a leader but also a guardian. Leadership in Islam believes that a leader is a servant of the followers whose supreme duties are to protect and guide them to the good deeds. Moreover, in Islam, leadership is an Amanah (trust) that arises from a psychological contract between the leader and the followers. The leader holds a strong moral that is achieved by the spiritual development from the three fundamental areas of Islam which are *iman* (faith on god), *taqwa* (Islamic piety), and *Ihsan* (generosity and goodness).

*Iman* drives a leader to feel everything (himself and his possessions) belongs to Allah that conquers the leader's ideas, thinking, ego, and passion. *Iman* also makes a leader to be accountable to God of what he/she does and to believe in the life hereafter. As a result, the leader becomes more responsible and continuously emphasises on the good deeds. *Taqwa* refers to a person's inner consciousness of God that improve religiosity. When a leader achieves *Taqwa*, the activities of the leader will refrain from unjust but reflect the Islamic principles. Similarly, the term '*Ehsan'* denotes the love of God that motivates an individual to achieve God's pleasure at every step of life through generosity and goodness (Ahmad, 2009). As Islamic banks operate on the basis of the principals of Islam, the leaders in Islamic banks are expected to have high morale and justice in employees' supervision compared to the leaders of conventional banks. Thus, Islamic banks scored higher in supervision variable compared to conventional banks.

The higher mean value for company policy of Islamic banks compared to the mean value for conventional banks is also deemed due to religiosity. The company policies in Islamic banks are highly influenced by the Islamic teaching that emphasised on the recognition and reward at the workplace. Moreover, as per the literature (chapter four, section 4.5.2), ethics is at the heart of Islamic banks' operations which positively impacts their policymaking. It has also been reflected in the findings of the employee satisfaction survey in terms of company policy variable. Moreover, the Duch_Bangla bank, one of the sampled conventional bank scored very low (shown in Table 6.54) in company policy which leads to lowering the whole sector score for conventional banks. The inferior performance of the Duch_Bangla bank could be due to a higher concentration on customer satisfaction and a lower concentrating on employee satisfaction as the bank's core objective is to "fulfil its customer needs and satisfaction" (Duch_Bangla Bank, 2016, p11).

The reason for the higher mean value of training variable of Islamic banks compared to the mean value of training variable of conventional banks is believed due to a robust human resources management (HRM) practice that is highly influenced by the Islamic principles. As mentioned earlier that the leaders in Islamic banks are not only a leader but also a guardian who ensures that the followers have the right capabilities and knowledge by receiving appropriate training. This leads Islamic banks to score higher in training variable compared to conventional banks.

One of the reasons for Islamic banks to score higher in working condition and environment variable than the conventional banks could be attributed the worst performance of two conventional banks called Agrani bank and Sonali bank in terms of working condition and environment. These banks scored very low as compared to the other conventional banks in the sector that contribute to lowering the sector's overall score. The reason for the inferior performance of these two banks could be the fact that these are owned by the state where the high officials are not as much accountable as compared to the high officials in private banks. Due to a lack of accountability of the high officials in the state-owned banks, appropriate supports and facilities (For example, clean drinking water, healthy working environment, performance appraisal) are not provided to the subordinates' employees which lead them to have an unfavorable feeling to the working condition and environment.

Another reason for the higher mean value for working condition and environment of Islamic banks could be due to the fact *Ehsan* that means generosity or goodness in all. As a result of *Ehsan*, the senior officials of Islamic banks trend to provide with the maximum support and facilities for the colleagues or subordinates. Besides, the employees in Islamic banks pray together when it is time to pray. This also gives the employees a good impression of the working condition and environment. In addition, literature (For example, Chusmir and Koberg, 1988) confirm that religiosity impacts non-managerial employees more than the managerial employees in a working environment setting.

The higher score of Islamic banks compared to conventional banks in remuneration variable is assumed due to the fact of religious influences on employee motivation. The employees in Islamic banks are not only motivated by the extrinsic values, for example, financial rewards but also the intrinsic values such as religiosity. Moreover, religiosity promotes justice that ensures employees' appropriate rewards for their performance.

In terms of promotion, Islamic banks scored higher compared to conventional banks. It is because the leaders in Islamic banks are expected to have high moral and justice in employees' supervision due to their religiosity. As mentioned earlier in chapter four, section 4.42 that justice and high moral of a leader in Islamic banks are derived from three fundamental areas which are *iman, taqwa*, and *Ihsan*. These aspects of Islamic principles are positively related to a person's moral and justice. Similarly, Islamic banks scored higher compared to conventional banks in terms of recognition because of the leaders' high moral and justice which are derived from the *iman, taqwa*, and *Ihsan*.

In relation to the job-itself variable, Islamic banks perform higher than the conventional banks. The higher performance of Islamic banks in job-itself variable is considered due to the impact of religion. The employees of Islamic banks are motivated not only materially but also spiritually. One of the fundamental belief in Islam that *al-din muamala* which mean the activities of human are considered as an act of worship, if it has a conformity with the *Shariah* (Islamic law). Hence, the job itself is a motivator for the employees of Islamic banks which is not the case for the employees of conventional banks.

Islamic banks perform higher in terms of relationship variable compared to conventional banks. It is because in Islam, it is an obligation to maintain a good relationship with everyone at the workplace or in society. Besides, Islamic leadership is highly influenced by the Islamic teachings. Therefore, the top management acts as a guardian who guides and guards the employees and acts as a servant who serves or cooperates with the employees at workplace. Islamic influences not only apply to the leaders but also to the co-workers that drive them to help each other or to work as a team leading to creating a robust relationship. Moreover, in Islamic banks, the male employees pray together which is an opportunity for them to meet and greet each other. In addition, every employee gives salutation whenever they see each other. These Islamic norms and activities contribute in creating a good relationship among the employees of Islamic banks.

Conventional banks scored slightly higher in terms of workload variable than Islamic banks. It is surprising that the employees of Islamic banks scored higher in remuneration, but scored less in workload. The higher remuneration could not influence the employees of Islamic banks to score higher in relation to workload. However, although conventional banks scored inferior in remuneration variable, their employees are favourable in terms of workload. The reason for the inferior performance of Islamic banks in terms of workload is that due to the religious obligations and high moral, the employees work hard and give their best effort in achieving their organisational goal which consequently increase the workload for the employees in Islamic banks.

With regards to participation variable, Islamic banks scored higher compared to conventional banks. As can be seen from Table 6.54 that the Agrani bank, the Mercantile bank, and the Sonali bank score inferior that results in lowering the overall score for the conventional banks. Moreover, Islamic banks scored higher due to the religious influences on their administration and operations. The Quran (49:13) says in relation to inclusion that “we created you from a pair and made you into a nation or tribes”. The Prophet said that “Arabs have no superiority on non-Arabs and non-Arabs have no superiority on Arabs or a white has no advantage over black and a black has no advantages over white”. Hence, everyone has an equal opportunity in Islam and based on this notion, the employees of Islamic banks believe in participatory decision making. As a result, Islamic banks score higher in participation variable compared to conventional banks. Moreover, the study conducted by Dooty et al. (2015) in Bangladesh found employee satisfaction is the same in both Islamic and conventional banks.

## 7.4 A Comparison of Internal Business Process between Islamic Banks and Conventional Banks

After organising and summering the data in relation to internal business process through the descriptive statistics in chapter 6, section 6.5, this section compares the mean value of internal process variables which are productivity growth, credit growth, complaint initial response time, and complaint resolution time. The data in relation to productivity growth and credit growth is identified from mathematical calculation (ratios). Hence, inferential statistics have not been applied to compare these variables. Conversely, customer complaint initial response time and complaint resolution time have been compared by using inferential statistics. Prior to compare and to test the significance of the variances among the data, this study plans to see the normality of the data distribution. The normality of the data distribution of complaint initial response time and complaint resolution time variables has been tested by employing the Kolmogorov-Smirnov test and Shapiro-Wilk shown in Table 7.7.

**Table 7.7 Tests of Normality (Internal Process Variables)**

| Variables | Type of Bank | Kolmogorov-Smirnov | | | Shapiro-Wilk | | |
|---|---|---|---|---|---|---|---|
| | | Statistic | df | Sig. | Statistic | df | Sig. |
| Complaint initial response time | Islamic Banks | .347 | 85 | .000 | .783 | 85 | .000 |
| | Conventional Banks | .255 | 46 | .000 | .816 | 46 | .000 |
| Complaint resolution time | Islamic Banks | .276 | 85 | .000 | .796 | 85 | .000 |
| | Conventional Banks | .374 | 46 | .000 | .710 | 46 | .000 |

None: df = degree of freedom, sig = significance

Table 7.7 suggests that the p value in the case of complaint initial response time and resolution time variables in both tests (Kolmogorov-Smirnov and Shapiro-Wilk test) is far less than .05. Hence, the null hypothesis in terms of normality which is the data are normally distributed has been rejected. As the data in relation to complaint initial response time and resolution time are not normally distributed, a non-parametric test

(Mann-Whitney U test) has been deployed to compare complaint initial response time and complaint resolution time variables that have been shown in Table 7.10 and 7.11.

**Table 7.8 Comparing Productivity Growth and Credit Growth between Islamic Banks and Conventional Banks**

| Variables | Type of Bank | N | Mean | Std. Deviation |
|---|---|---|---|---|
| Productivity Growth | Islamic Banks | 8 | .010835 | .4175515 |
| | Conventional Banks | 8 | -.118872 | .2090841 |
| Credit Growth | Islamic Banks | 8 | .174071 | .1742418 |
| | Conventional Banks | 8 | -.052700 | .3475058 |

According to Table 7.8, Islamic banks perform higher compared to conventional banks in relation to productivity growth. The mean of productivity growth of Islamic banks is .01 (SD=.418) that is higher than the mean of productivity growth of conventional banks which is -.12 (SD=.209). Similarly, Islamic banks have a higher credit growth that is .17 (SD=.174) compared to the credit growth of conventional banks which is -.05 with a standard deviation of .348.

So, based on the above analysis, it can be said that Islamic banks have grown 1% in terms of productivity which mean Islamic banks become 1% more efficient in the year 2016 compared to the year 2015. Similarly, Islamic banks have grown 17% in credit that means Islamic banks have 17% more investment in the year 2016 compared to the year 2015. On the other hand, conventional banks have -12% growth in productivity that means conventional banks have become 12% less efficient in the year 2016 compared to the year 2015. In terms of credit growth, conventional banks have -5% growth that means conventional banks have 5% less investment in the year 2016 compared to the year 2015.

**Table 7.9 Comparing the Customer Complaints Variable of Internal Business Process between Islamic Banks and Conventional Banks.**

| Type of Banks | Customer Complaints | | Total |
|---|---|---|---|
| | Yes | No | |
| Islamic Bank | 85 | 115 | 200 |
| Conventional Bank | 46 | 154 | 200 |
| Total | 131 | 269 | 400 |

As can be seen in Table 7.9 that the customers' complaint is nearly doubled in the case of Islamic banks compared to conventional banks. Eighty-five customers of Islamic banks complained that is 42.5% (Figure 7.1) of the customers surveyed. On the other hand, in the case of conventional banks, forty-six customers complained that is 23% of the customers surveyed. Islamic banks received more complaints than conventional banks because Islamic banks are relatively young to conventional banks. Moreover, the services of Islamic banks are still being developed to fulfil the ongoing demands of customers.

Figure 7.1 Customers Complaints

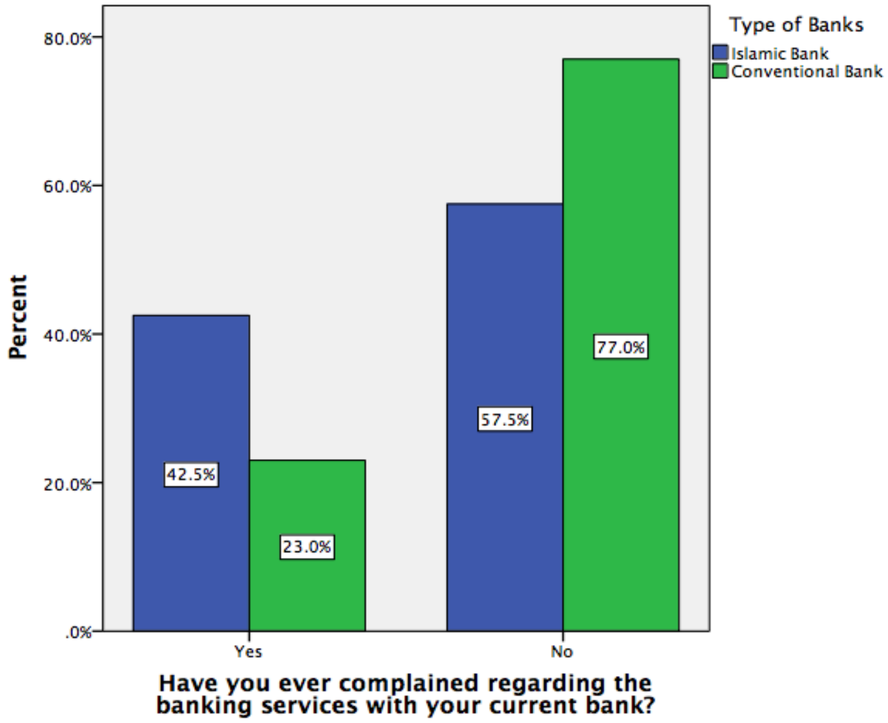
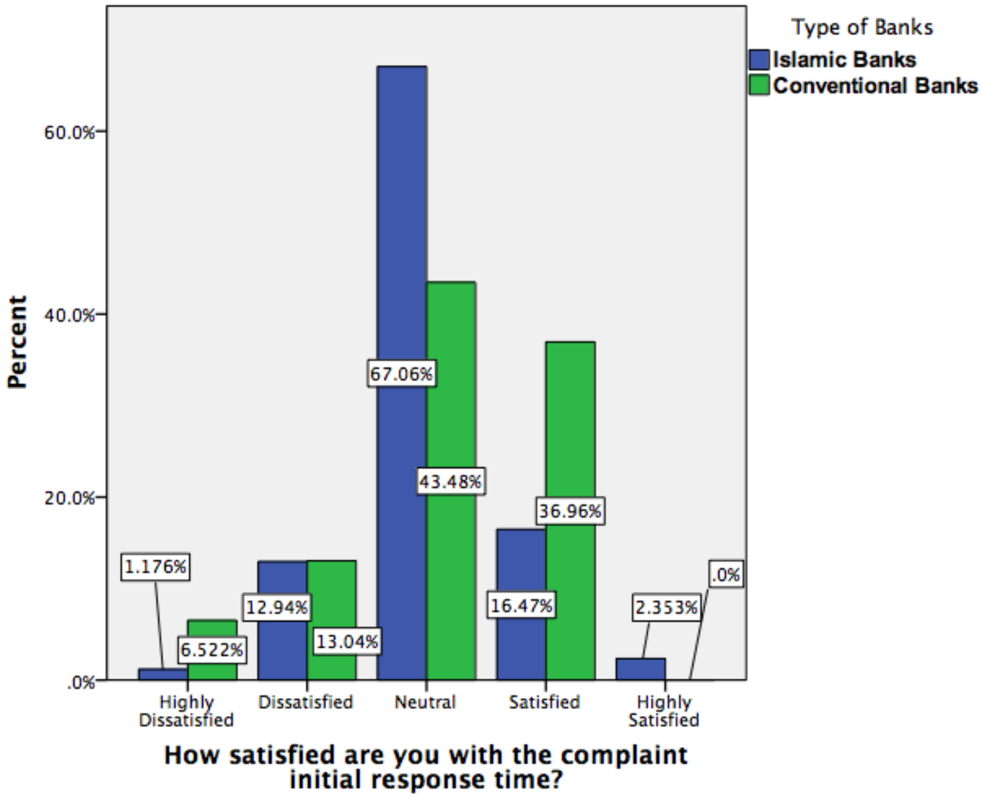



**Table 7.10 Mann-Whitney U test (Comparison between Islamic Banks and Conventional Banks in terms of Complaints Initial Response Time Variable).**

| Variable | Type of Banks | N | Mean Rank | Sum of Ranks |
|---|---|---|---|---|
| Complaint initial response time | Islamic Banks | 85 | 63.79 | 5422.50 |
| | Conventional Banks | 46 | 70.08 | 3223.50 |
| | Total | 131 | | |

According to Table 7.10, conventional banks perform better in relation to customer complaint initial response time than the customers' complaint initial response time of Islamic banks. Within forty-six customers complained in conventional banks, the mean rank value of complaint initial response time is 70.08. On the other hand, within eighty-five customers complained in Islamic banks, the mean rank value of complaint initial response time is 63.79 which is slightly less than the mean value of conventional banks.

Figure 7.2 Complaints Initial Response Time



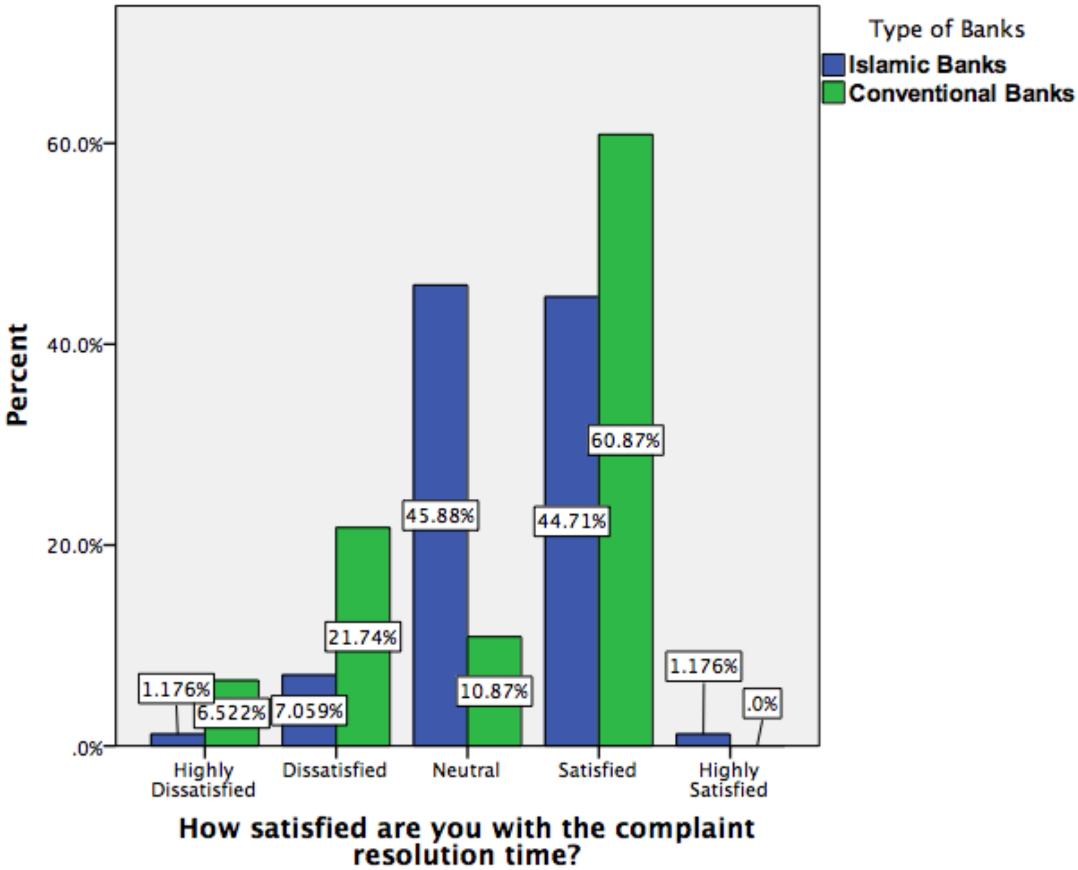

Moreover, as can be seen in Figure 7.2 that the majority of customers that is 67.06% in Islamic banks and 43.48% in conventional banks are neutral in terms of complaint initial response time. Furthermore, 36.96% of customers who complained are satisfied in conventional banks while only 16.47% of customers who complained are satisfied in the case of Islamic banks. There are also 2.35% of customers are highly satisfied in the case of Islamic banks whereas no customer was found to be highly satisfied in the case of conventional banks. However, almost the same number of customers that is 12.94% in Islamic banks and 13.04% in conventional banks are dissatisfied. 6.52% of customers are highly dissatisfied in conventional banks while 1.18% of customers are dissatisfied in Islamic banks.

**Table 7.11 Mann-Whitney U test (Comparison between Islamic Banks and Conventional Banks in terms of Complaints Resolution Time Variable).**

| Variable | Type of Banks | N | Mean Rank | Sum of Ranks |
|---|---|---|---|---|
| Complaint resolution time | Islamic Banks | 85 | 65.54 | 5571.00 |
| | Conventional Banks | 46 | 66.85 | 3075.00 |
| | Total | 131 | | |

It is evident from Table 7.11 that conventional banks ranked higher in relation to customer complaint resolution time compared to the customer complaint resolution time of Islamic banks. In Islamic banks, eighty- five customers complained out of two hundred customers surveyed in which the mean rank value for complaint resolution time is 65.54. On the other hand, within forty-six customers complained out of two hundred customers surveyed in conventional banks, the mean rank value for complaint resolution time is 66.85 which is slightly higher than the mean value of Islamic banks.

Figure 7.3 Complaints Resolution Time




Moreover, Figure 7.3 suggests that the majority of customers (60.87%) in conventional who complained are satisfied in relation to complaint resolution time while 44.71% of customers are satisfied in the case of Islamic banks. There are also 1.18% of customers who are highly satisfied with Islamic banks whereas no customer has been found in the case of conventional banks. However, 21.74% of customers are dissatisfied in the case of conventional banks while this number is 7.06% in the case of Islamic banks. There are also 6.52% of customers who are highly dissatisfied in conventional banks whereas 1.18% of customers are dissatisfied in Islamic banks.

Figure 7.3 also suggests that although the majority of the customers of conventional banks are satisfied in complaint resolution time, it has a higher number of dissatisfied customers compared to Islamic banks which impact on lowering the mean rank value.

Based on the above discussion, it can be claimed that conventional banks perform superior in relation to complaint initial response time and complaint resolution time compared to Islamic banks. As there are differences among the variables of the internal business process between Islamic banks and conventional banks, this study therefore, attempts to see the level of statistical significance of the variances among the variables in order to validate the claim statistically.

**Table 7.12 Test Statistics (Complain Initial Response Time and Resolution Time)**

| | Complaint initial response time | Complaint resolution time |
|---|---|---|
| Mann-Whitney U | 1767.500 | 1916.000 |
| Wilcoxon W | 5422.500 | 5571.000 |
| Z | -1.023 | -.206 |
| Asymp. Sig. (2-tailed) | .306 | .837 |

a. Grouping Variable: Type of Banks

The Mann-Whitney U test is conducted (shown in Table 7.12) to examine the level of significance of the difference between the mean rank value for initial response time of Islamic banks (63.79) and the mean rank value for initial response time of conventional banks (70.08). As shown in Table 7.12, Mann-Whitney U test generated $u = 1767.500$, $z = -1.023$, $p = .306$ (2-tailed) for complaint initial response time. The result indicates that there is no statistically significant difference between Islamic banks and conventional banks in relation to complaint initial response time because the p value is higher than the confidence level .05. Similarly, U-test produced $u = 1916.000$, $z = -.206$, $p = .837$ for customer complaint resolution time which is also higher than the confidence level .05. Thus, there is no statistical evidence to support a significant difference between Islamic banks and conventional banks in terms of complaint resolution time.

Although conventional banks ranked higher in both complaint initial response time and complaint resolution time, there is no evidence to support a statistical significant difference between Islamic banks and conventional banks.

So, the reflection of the above discussion is that Islamic banks perform higher in relation to internal business process compared to conventional banks. This accepts the *Hypothesis 3*, constructed in chapter four, section 4.5.3.

The higher productivity growth and credit growth of Islamic banks compared to conventional are considered for several reasons. Firstly, Islamic banks have a robust customer management process that has been discussed in chapter four, section 4.5.3. As banks are a service-oriented institution, a strong customer management process highly influences banks' performance. An efficient and effective customer management system mostly depends on the roles and responsibility of employees (Buavaraporn and Tannock, 2013; EFQM excellent model, 2013). It is evident from the literature (discussed in chapter 4, section 4.5.2 and 4.5.3) that one of the most important drivers of employees' performance is spirituality that provides them with intrinsic motivation. Spirituality, however, highly correlated with the religiosity. Secondly, Islamic banks have an effective and efficient operation management process as discussed in the previous chapter four. When an operation management process is vigorous, it not only fulfils customers' expectations through superior services and products but also builds a good relationship with the stakeholders. Besides, employees play a vital role in creating a robust operation management process when they are satisfied with their job. As discussed earlier in chapter four that religiosity positively impacts on job satisfaction that ultimately results in employee satisfaction. Employee satisfaction is positively correlated with the internal business process. In addition, Islamic banks avoid uncertainty in every transaction, and the transaction needs to be understood by the related parties. These characteristics of Islamic banks create a real economy and support the operation management process to be effective and efficient. Thirdly, Islamic banks are governed, regulated, and monitored by one extra governing body. Every Islamic bank has a *Shariah* advisory board that governs and regulates the bank's activities along with the state regulatory authority central bank. So, the double governance system of Islamic banks makes the internal business process robust.

However, Islamic banks received higher complaints compared to conventional banks. One of the reasons for Islamic banks to have a higher number of complaints is that

Islamic banks are relatively new to conventional banks. The services of Islamic banks are still being developed to fulfil the ongoing demands of customers. Thus, the customers of Islamic banks may complaint when their financial demands are not fully fulfilled. Moreover, due the customers lack in understanding of *Shariah* and the operations of Islamic banks, the customers may perceive the operations of Islamic banks as not truly compliance with the Islamic *Shariah* leading to an increased customers' complaint.

The reason for the negative credit growth of conventional banks is that three conventional banks that include the Duch Bangla bank, the IFIC bank, and the Mercantile bank have negative credit growth in the year 2016. This has resulted negatively on the overall sector credit growth. Similarly, the reason for negative productivity growth of conventional banks is that six conventional banks that include the Agrani bank, the Duch Bangla bank, the IFIC bank, the Mercantile bank, the Prime bank, and the Sonali bank have negative productivity in the year 2016. This has resulted negatively on the overall sector productivity of conventional bank.

Moreover, it is evident from the literature (For example, Kaplan and Norton, 2001; Heskett et al.,1994) discussed in chapter two that satisfied employees create a robust internal business process. As the employees are more satisfied in Islamic banks compared to conventional banks, the internal business process of Islamic banks is expected to be higher that also been reflected in the current research findings.

Furthermore, the study conducted by Smail and Rahim (2013) found that Islamic banks have higher productivity compared to conventional banks. Similarly, Abbas et al. (2015) found Islamic banks have shown tremendous growth in productivity throughout the world in the recent past. Nosheen and Rashid (2019) found that Islamic banks have higher credit quality and stability compared to conventional banks. Besides, Aziz et al. (2016) and Ahmad and Luo (2010) claimed that Islamic banks are more efficient compared to conventional banks.

## 7.5 A Comparison of Financial Performance between Islamic Banks and Conventional Banks

After organising and summering the financial performance data through descriptive statistics in chapter 6, section 6.6, this section compares the mean value for return on assets (ROA) and return on equity (ROE) between Islamic banks and conventional banks.

**Table 7.13 Comparing the Variables of Financial Performance between Islamic Banks and Conventional Banks.**

| Type of Bank | ROA% | ROE% |
|---|---|---|
| Islamic Banks | 0.51 | 12.42 |
| Conventional Banks | 0.58 | 6.76 |

Table 7.13 suggests that Islamic banks perform superior in ROE compared to conventional banks. Islamic banks generate 12.42% of profit for each BDTK (currency) of shareholder's equity whereas conventional banks generate about half of Islamic banks' ROE which is 6.76%. However, conventional banks perform superior in terms of ROA. They generate 0.58% from each BDTK invested while Islamic banks generate slightly lower than the ROA of conventional banks which is 0.51%.

Conventional banks perform inferior in terms of ROE because the Agrani bank has a negative return in both cases ROA and ROE (shown in Table 6.67) due to a net loss of 6,896,445,282 BDTK for the financial year 2016. The negative return of the Agrani bank has lower the over performance of the sector. Likewise, Islamic banks perform inferior in ROA due to net loss made by ICB bank (shown in Table 6.66) which is -270843447 BDTK for the financial year 2016. The loss has negatively impacted on the overall sector performance in terms of ROA and ROE. Moreover, Islamic banks perform superior in ROE due to the distinct characteristics of Islamic banks discussed in chapter four section 4.5.4.

Although conventional banks perform higher in ROA, it could not generate as much profit as Islamic banks generate in terms of shareholder's equity. Therefore, Islamic banks perform superior compared to conventional banks in terms of shareholder returns. Moreover, an inferior performance in ROE is an indication of less efficiency of the conventional banks. As every business ultimate aim is to maximise the shareholder's equity, a business with a better ROE is an indication of satisfying its shareholder. As Islamic banks perform higher compared to conventional banks in terms of ROE, their shareholders are more satisfied compared to the shareholders of conventional banks.

The above discussion suggests that Islamic banks perform superior in financial performance, although it has slightly lower ROA compared to conventional banks. This accepts the *Hypothesis 4* constructed in chapter four, section 4.5.4.

The superior performance of Islamic banks compared to conventional banks in terms of ROE is considered for many reasons. Firstly, Islamic banks have a 17% growth in investment in the financial year 2016 compared to the previous year 2015. By contrast, conventional banks have 5% less investment in the year 2016 compared to the previous year 2015. In addition, Islamic banks have become 1% more efficient in the year 2016 whereas conventional banks have become 12% less efficient in 2016. A growth in investment and an increased productivity of Islamic banks contribute to a higher operations profit that consequently increases the shareholder return.

Secondly, Islamic banks perform higher in ROE because the Agrani bank in the conventional banking sector has a negative return in both cases ROA and ROE (shown in Table 6.67) due to a net loss of 6,896,445,282 BDTK for the financial year 2016. The negative return of the Agrani bank has lower the ROE of the conventional banking sector.

Thirdly, Islamic banks have an effective and efficient internal business process as discussed in section 7.4. The literature discussed in chapter three, section 3.5.1 confirm that a higher ROE indicates the management efficiency and ability to generate operating profit by investing shareholder funds. Therefore, the robust internal business process of Islamic banks contributes to a higher ROE.

Fourthly, Islamic banks perform superior in ROE due to religiosity and distinct characteristics of Islamic banks. Because of the religiosity, employees of Islamic banks were satisfied with their job and were committed to their responsibilities at work (Bhatti, 2016; Aldulaimi, 2016; Ali, 2010) which lead Islamic banks to have a higher financial performance. Moreover, Islamic banks have a low funding cost because of the demand deposit that yields no return (Bourkhis and Nabi, 2013). Indeed, due to a lack of understanding of the Islamic Sharia, many customers of Islamic banks still believe that any reward from Islamic banks is a *riba* (interest) and unwilling to receive it (Hassoune, 2002). Hence, low funding cost of Islamic banks contributes to a higher net profit that consequently leads to a higher ROE.

Fifthly, the depositors of Islamic banks have less intention to profit earning compared to the depositors of conventional banks due to their religiosity (Abedifar et al., 2013). Religiosity makes them loyal to Islamic banks. As a result, they do not switch their bank when Islamic banks provide them with less profit or even no profit at the time of inferior performance. Moreover, religiosity prepares the depositors ready to pay rent to receive the *Shariah* compliance services from Islamic banks. Furthermore, a considerable number of empirical studies (For example, Khediri et al., 2015, Beck et al., 2013; Abedifar et al., 2013) suggest that Islamic banks have a lower credit risk compared to conventional banks. This is because of the fact that Islamic banks mobilise the funds based on *mudaraba* and *musharakah* contract which are based on the principle of the profit and loss sharing. In terms of raising funds, Islamic banks adopt demand deposit and investment deposit contracts. The depositors of the demand or investment contract have no guarantee to receive a return (principle and remunerations) from their investment due to the profit and loss sharing agreement. Hence, any loss that reduces the assets of Islamic banks subsequently reduces the liabilities, it means transfer the credit risk from the assets side to the liabilities side of the balance sheet. The lower credit risk of Islamic banks increases their profitability leading to a higher ROE. In addition, Khan (1996) states that the balance sheet of Islamic banks has no fixed liabilities and customers' deposits are treated as shares. This nature of Islamic banks gives more stability to absorb losses. Thus, Islamic banks are less likely to be a default. However, in the case of conventional banks, any reduction or loss in the assets side results in a reduction either in reserve or in capital.

It creates an instability for conventional banks leading to the bankruptcy (Ben Khediri and Ben-Khedhiri, 2009). Also, uncertainty (gharar) is prohibited in Islamic finance. Therefore, the investment decision is based on a clear understanding of the return. These distinct characteristics of Islamic banks contribute to a higher profitability leading to a higher ROE. However, Islamic banks perform inferior in ROA due to net loss made by ICB bank (shown in Table 6.66) which is -270843447 BDTK for the financial year 2016. The loss of ICB bank has negatively impacted on the overall sector performance in terms of ROA and ROE. In addition, Islamic banks are governed by the *Shariah* law (For example, Islamic banks cannot invest in alcohol or arms production) in making investments decision. Thus, Islamic banks have limited investment opportunities compared to conventional banks. The limited investment opportunities of Islamic banks result in inferior performance in terms of ROA.

Moreover, it is evident from the literature (For example, Kaplan and Norton, 2001; Heskett et al.,1994) discussed in chapter two that employee satisfaction, a strong internal business process, and customer satisfaction positively impact on financial performance. As employee satisfaction, internal business process, and customer satisfaction are higher in Islamic banks, the financial performance of Islamic banks are expected to be higher which also been reflected in the current research findings.

Furthermore, Aziz et al. (2016) studied the performance of Islamic banks in Pakistan for the period 2004-2014 based on ROA, ROE, asset quality, liquidity, investment, deposits, and capital. The findings of their study suggest that Islamic banks perform higher in ROE, ROA, and asset quality while conventional banks perform higher in investment, liquidity, deposits, and capital. Similarly, Khan et al. (2017) measure the performance of Islamic banks compared to conventional banks in Pakistan based on financial ratios. The study found the performance of Islamic banks is higher compared to conventional banks in terms of profitability, risk, efficiency, and liquidity management. However, the performance of conventional banks is higher in asset quality. Siraj and Pillai (2012) investigated the performance of Islamic banks compared to conventional banks in the GCC region for the period from 2005 to 2010 based on financial ratios. The study found that Islamic banks perform higher in two key ratios ROA and ROE compared to conventional banks. Erol et al. (2014) studied the performance of Islamic banks compared to conventional banks in Turkey. The results suggest that Islamic banks have higher profitability and asset management compared to conventional banks.

### 7.6 Conclusion

This chapter has compared the performance variables organised and summarised in the previous chapter six. Islamic banks perform superior in terms of all four aspects of performance compared to conventional banks although customers' complaint is higher in Islamic banks.

Section 7.2 has compared customer satisfaction variables between Islamic banks and conventional banks. This section also has revealed that Islamic banks perform higher in reliability, tangible, responsiveness, knowing customer, courtesy, and access compared to conventional banks although there is no statistically significant difference between Islamic banks and conventional banks with regards to reliability and courtesy variables. By contrast, conventional banks perform higher in competence, credibility, and communication compared Islamic banks. However, there is no statistically significant difference between Islamic banks and conventional banks in terms of competence variable. So, in terms of statistical significance, Islamic banks perform higher in four variables while conventional banks perform higher in two variables. As Islamic banks lead in customers' satisfaction variables, it supports the hypothesis-1 developed in chapter four, section 4.5.1 that customers are more satisfied with Islamic banks compared to conventional banks.

Section 7.3 has compared the employee satisfaction of Islamic banks compared to conventional banks. The analysis in section 7.2 suggests that Islamic banks perform higher compared to conventional banks in supervision, company policy, training, working condition, remuneration, promotion, recognition, job itself, relationship, and participation. However, there is no statistically significant difference between Islamic banks and conventional banks in terms of supervision, recognition, and relationship. On the other hand, conventional banks perform higher in workload compared to Islamic banks although there is no statistically significant difference between Islamic banks and conventional banks in terms of workload variable. Thus, with regards to statistical significance, Islamic banks perform higher in seven variables while conventional banks perform higher in two variables. As Islamic banks lead in customers’ satisfaction variables, it supports the hypothesis-2 developed in chapter four, section 4.5.2 that employees are more satisfied with Islamic banks compared to conventional banks.

Section 7.4 has compared the internal business process variables. The analysis in this section indicates that Islamic banks have grown 1% in terms of productivity which mean Islamic banks have become 1% more efficient in the year 2016 compared to the year 2015. Similarly, Islamic banks have grown 17% in credit that means Islamic banks have 17% more investment in the year 2016 compared to the year 2015. On the other hand, conventional banks have -12% growth in productivity that means conventional banks have become 12% less efficient in the year 2016 compared to the year 2015. In terms of credit growth, conventional banks have -5% growth that means conventional banks have 5% less investment in the year 2016 compared to the year 2015.

In terms of customers' complaint, Islamic banks received about two times more complaint compared to conventional banks. 42.5% of the customers surveyed complained in Islamic banks while 23% of the customers surveyed complained in conventional banks. With regards to complaint handling, conventional banks perform superior compared to conventional banks. Conventional banks ranked higher in both complaint initial response time and complaint resolution time. Although conventional banks perform higher in customers’ complaint handling variables, the differences in the variables are not statistically significant. Thus, Islamic banks perform superior concerning internal business process due to the higher productivity and credit growth. As Islamic banks lead in internal business process variables, it supports the hypothesis-3 developed in chapter four, section 4.5.3 that internal business process is more robust in Islamic banks compared to conventional banks.

Section 7.5 has compared the financial performance between Islamic banks and conventional banks. The analysis in section 7.5 claims that conventional banks perform higher in ROA. On the other hand, Islamic banks perform higher in ROE. As

Islamic banks have higher ROE, their shareholders received more return compared to the shareholders of conventional banks. Besides, based on the literature discussed in chapter three, section 3.5.1, a higher ROA suggests a better assets utilisation and a higher ROE indicates superior financial performance. Hence, Islamic banks perform superior in financial performance compared to conventional banks due to a higher ROE. This supports the hypothesis-4 developed in chapter four, section 4.5.4 that financial performance is higher in Islamic banks compared to conventional banks.

The superior performance of Islamic banks in the four aspects of performance is believed due to the distinctive characteristics of Islamic banks and the religiosity of their customers and employees.

# CHAPTER EIGHT

# CONCLUSION

## CHAPTER EIGHT

## CONCLUSION

### 8.1 Introduction

This research aims to assess banking performance in a comparative manner between Islamic banks and conventional banks in Bangladesh. In order to fulfil the aim, customer satisfaction, employee satisfaction, internal business process, and financial performance have been measured. The empirical data collected by the questionnaires and from the sample banks' annual reports have been analysed and discussed in the previous chapter six and chapter seven. This chapter intends to conclude the research by highlighting the key research findings. This chapter also provides the research implications, limitations, and recommendations for future research.

### 8.2 Reflection on the Findings of the Research

Performance measurement has been a vital part of management activities as it gives them control over the banks' operations. However, the common practice in performance measurement is to consider the past financial information that cannot provide a holistic picture of performance and hinder the future performance of a bank. Thus, this study aims to measure the performance of Islamic banks compared to conventional banks in Bangladesh based on financial and nonfinancial measures. The financial and non-financial aspects of performance include customer satisfaction, employee satisfaction, internal business process, and financial performance. So, how banks perform in terms of these four aspects of performance are the objectives for the current research.

In order to achieve the first objective of the current research, customer satisfaction has been measured by considering the service quality model called SERVQUAL and its parameters has underpinned the design of customer satisfaction questionnaire. The findings of the research with regards to the first objective suggest that Islamic banks have the highest mean score in credibility variable followed by tangible, knowing customer, access, reliability, courtesy, competence, responsiveness, and communication. Likewise, conventional banks perform the highest in credibility variable followed by tangible, courtesy, competence, knowing customer, responsiveness, and communication. It noticeable that both banking systems Islamic and conventional perform the highest in credibility variable and the lowest in communication variable.

In a comparative manner, Islamic banks perform superior compared to conventional banks in six variables out of nine. These variables are tangible, responsiveness, knowing customers, access, reliability, and courtesy. However, according to the Mann-Whitney U test, there is no statistically significant difference between Islamic banks and conventional banks in terms of reliability and courtesy. By contrast, conventional banks scored higher than Islamic banks in competence, credibility, and communication. However, as per the U test, the difference between Islamic banks and conventional banks in terms of competence variable is not statistically significant.

The reflection of the findings in terms of research's first objective is that both Islamic banks and conventional banks do not communicate with their customers according to customers' expectations. Hence, Islamic banks and conventional banks are required to take the necessary actions to improve communication with their customers. This can be done by informing customers promptly for any changes in policies or services.

Moreover, conventional banks are required to take the initiative to improve their services with regards to the underperforming variables that include tangible, responsiveness, knowing customers, access, reliability, and courtesy. Conventional banks can revise their policies to improve service quality in terms of these aspects of service. In terms of the underperforming variables, conventional banks can examine the underlying reasons of underperformance and act accordingly. Also, conventional banks can investigate the variables of Islamic banks and learn the contributing factors for superior performance. If conventional banks can improve service quality with regards to tangible, responsiveness, knowing customers, access, reliability, and courtesy, their customers will be more satisfied. When the customers of conventional banks are satisfied, a better financial performance can be expected. Similarly, Islamic banks should consider increasing their credibility due to their inferior performance in credibility variable compared to conventional banks. As Islamic banking is comparatively a new concept, many customers believe that there is no difference between the two-banking system or Islamic banks are not fully Islamic (i.e. compliant with the *shariah* law). Thus, they should educate the customers about *Shariah's* requirements and the operations of Islamic banks. This will increase customers' understanding and knowledge of the products and services of Islamic banks leading to increased credibility. An increase in credibility will improve customers' satisfaction of Islamic banks which consequently increases their financial return.

In order to achieve the second object of the current research, employee satisfaction has been measured based on the job satisfaction theories (For example, Herzberg et el., 1959 and Maslow, 1954). The findings of the research in relation to the second objective suggest that Islamic banks have the highest mean score in company policy variable followed by supervision, job itself, relationship, recognition, working condition, workload, promotion, participation, training, and remuneration. Likewise, conventional have the highest mean value in supervision followed by relationship, company policy, recognition, workload, job itself, working condition, training, promotion, participation, and remuneration. So, Islamic banks perform the highest in company policy and conventional banks in supervision. In contrast, both banking systems Islamic and conventional perform the lowest in remuneration.

In a comparative manner, Islamic banks scored higher than conventional banks in ten variables out of eleven variables which include company policy, training, working conditions, remuneration, promotion, job_itself, participation, supervision, recognition, and relationship. However, according to the U test, the differences between the two banking systems concerning supervision, recognition, and relationship are not statistically significant. By contrast, conventional banks scored higher than Islamic banks only in one variable which is workload although the difference is not statistically significant.

The reflection of the findings in terms of research objective two is that both banking systems Islamic and conventional should improve the remuneration and promotion facilities for their employees. Remuneration and promotion are considered as hygiene factors (Herzberg, 1982; Herzberg et al., 1959) that subsequently increase job satisfaction leading to employee satisfaction. Moreover, conventional banks should take the appropriate actions to improve employees' attitude towards training, company-policy, working conditions, job-itself, and participation. For example, conventional banks can ensure sufficient training for employees, increase facilities at workplace (For example, pure drinking water, enough light, and space), and introduce participatory decision making. When these aspects of job satisfaction are improved in conventional banks, the employees will be more satisfied. When employees are satisfied, higher customer satisfaction and higher financial outcomes can be achieved (Kaplan and Norton, 1996). Furthermore, despite the difference is not statistically significate, Islamic banks need to consider improving employees' workload. It is because, if Islamic banks do not acknowledge this issue now, it might lead to employee dissatisfaction. To reduce employees' workload, Islamic banks can revise the human resource management policies or recruit more staffs for a specific.

In order to achieve the third objective of the current research, internal business process has been measured by considering customers' complaint and productivity of the respective banks. The findings of the research concerning the third objective indicate that Islamic banks have a higher number of customers' complaint compared to conventional banks. 42.5% of the customers surveyed in Islamic banks complained about the banking services. By contrast, in conventional banks, 23% of the customers surveyed complained about banking services. With regards to complaint initial response time variable, the majority of the customers (67%) who complained in Islamic banks were neutral. Besides, 17% of the customers were satisfied, 13% of the customers were dissatisfied, 2% of the customers were highly satisfied, and 1% of the customers were highly dissatisfied. In the case of conventional banks, the majority of the customers (43%) who complained were neutral, 37% of customers were satisfied, and 13% of customers were dissatisfied in terms of complaint initial response time. In relation to complaint resolution time variable, the majority of the customers (46%) who complained were neutral in Islamic banks while 11% of customers were neutral in the case of conventional banks. Moreover, 45% of the customers were satisfied in Islamic banks whereas 61% of the customers were satisfied in conventional banks. Furthermore, a higher number of customers were dissatisfied (22%) and highly dissatisfied (7%) in conventional banks. However, Islamic banks have a relatively lower number of dissatisfied (8%) and highly dissatisfied (2%) customers.

In terms of productivity growth and credit growth variables of internal business process, Islamic banks have grown 1% in productivity that means Islamic banks have become 1% more efficient in the year 2016 compared to the year 2015. Besides, Islamic banks have grown 17% in credit that means Islamic banks have 17% more investment in the year 2016 compared to the year 2015. Likewise, conventional banks have -12% growth in productivity that means conventional banks have become 12% less efficient in the year 2016 compared to the year 2015. In terms of credit growth, conventional banks have -5% growth that means conventional banks have 5% less investment in the year 2016 compared to the year 2015. So, customers' complaint is almost doubled in Islamic banks compared to conventional banks. Additionally, Islamic banks perform inferior in terms of complaint handling variables such as complaint initial response time and resolution time.

The reflection of the findings in terms of the third objective of the current research is that Islamic banks need to be more effective and efficient in dealing with customers' complaint. When a customer complaint, Islamic banks should respond more quickly than their current initial response time. Similarly, they are required to reduce their complaint resolution time. Islamic banks also need to investigate the underlying reasons for the higher number of customers' complaint. As the Islamic banking system is comparatively a new concept, customers' expectations might not be fully satisfied that can hike the customers' complaint. In this connection, Islamic banks should introduce more products and services to fulfil customers' ongoing needs and expectations.

Moreover, conventional banks perform lower compared to Islamic banks in productivity growth and credit growth. Therefore, conventional banks are required to improve their internal business process by providing sufficient and appropriate training to their employees, possibly altering the business policies, and improving employee's remuneration.

In order to achieve the fourth objective of the current research, financial performance has been measured by considering the ROE and the ROA of the respective banks. The findings of the research in relation to the fourth objective suggest that Islamic banks perform higher in ROE compared to conventional banks. The ROE of Islamic banks is 12.42% that means Islamic banks generate 12.42 Paisa for its shareholders (a coin unit of Bangladeshi currency) by investing 1 Taka (Bangladeshi currency). By contrast, the ROE of conventional banks is 6.76%. With regards to ROA, conventional banks perform higher compared to Islamic banks. The ROA of conventional banks is 0.58% while the ROA of Islamic banks is 0.51%. Although conventional banks perform higher in ROA, it could not generate as much profit as Islamic banks generated their shareholder. As banks' ultimate goal is to maximize the shareholders' equity, therefore, Islamic banks perform superior compared to conventional banks in terms of shareholder returns.

The reflection of the findings concerning the fourth objective of the current research is that convention banks perform lower compared to Islamic banks with regards to return on equity. As conventional banks perform inferior in ROE, they are required to improve the performance on the other aspects of performance that include customer satisfaction, employee satisfaction, and internal business process in order to have a higher ROE. It is because these other aspects of performance are positively correlated with financial performance (Kaplan, 2009). Similarly, Islamic banks performed lower in ROA compared to conventional banks. Hence, Islamic banks should emphasise on increasing the ROA. This can be achieved possibly by reviewing the current investment policies that will expand the areas of investment, reducing the associated costs of investment, and investing in a long-term project.

To summarise, the findings of the study reveal that Islamic banks perform higher in four aspects of performance, so conventional banks can explore the underlying reasons of Islamic banks' superior performance. This is because when conventional banks are aware of the contributing factors, these can be applied in conventional banking practice for higher performance.

The theories and studies (discussed in chapter four) suggest that religiosity and the distinctive characteristics of Islamic banking system significantly impact the determinants of the four aspects of performance. Religiosity changes customers and employees' expectations, perception, and attitude. As part of *shariah* commitment, Muslims customers attribute halal, haram, honesty, humanness, and trustworthiness with service quality. Likewise, Muslims bank employees do not tend to deal with the activities that are sinful in Islam such as dealing with interest, speculation, investing in alcohol or arms production. Also, in Islamic banking system, economy cannot grow artificially due to the asset backed lending system. The world financial crisis would not have occurred, if the asset back financing had used.

As Bangladesh is a Muslim majority country, conventional banks can update those banking systems that conflict with the Islamic Ideology in a way to match the religious or cultural demands. For instance, by using mark-up principle, zero percent interest rate can be introduced which many organisations adopting for lending in the western countries. The changes in the banking system will not only increase customers and employees' satisfaction, but also appeal new Muslim customers to use the service and employees to work for them with satisfaction.

### 8.3 Research Implications

This research attempts to empirically measure the performance of Islamic banks and conventional in Bangladesh. The findings of the research may guide the practitioners in the field to revise their existing practices for superior performance. It also enriches the existing literature that only focuses on the financial aspect of performance in measuring banks' performance. The practical and theoretical implication of the research findings are as follows:

#### 8.3.1 Practical Implication

The research findings with regards to customer satisfaction suggest (Table 6.17 and Table 6.28) both Islamic banks and conventional banks scored the lowest in communication variable. It means both banking systems do not communicate with their customers as per their expectations. Hence, Islamic banks and conventional banks should take appropriate action to promote communication with their customers especially informing them about the changes in policies or services. Moreover, conventional banks scored lower compared to Islamic banks in tangible, responsiveness, knowing customers, access, reliability, and courtesy. Therefore, conventional banks are required to take the initiative to improve their services with regards to these underperforming variables which consequently improve the service quality leading to customer satisfaction. If the customers of conventional banks are satisfied, it will positively impact on the financial performance. Similarly, Islamic banks performed lower in credibility compared to conventional banks. Thus, Islamic banks are suggested to take necessary step to increase their credibility. One of the ways it could be achieved by increasing the customers' understanding and knowledge in terms of *Shariah* and the operations of Islamic banks.  An increase in credibility will improve their customers' satisfaction which consequently increases the financial return.

Research findings concerning employee satisfaction (shown in Table 6. 42 and Table 6.55) indicate that the majority of the employees of both banking systems Islamic and conventional are not satisfied with their remuneration and promotion. Hence, both Islamic banks and conventional banks should improve the remuneration and promotion facilities that will attract and retain their employees. The research results (shown in Table 7.5) with regards to employee satisfaction also suggest that conventional banks perform lower compared to Islamic banks in training, company-policy, working conditions, job_itself, and participation. Thus, conventional banks should take necessary actions to improve employees' feelings towards these aspects of job satisfaction which will subsequently increase their employees' job satisfaction. If employee satisfaction can be increased, it will positively impact on customer satisfaction which ultimately leads conventional banks to have a higher financial return.

Research findings in terms of internal business process suggest that Islamic banks performed lower compared to conventional banks in terms of complaint handling variables that include customer complaint initial response time and complaint resolution time. Hence, Islamic banks should be more efficient and effective in dealing with customers' complaint. When a customer complaints, Islamic banks should respond more quickly than their current initial response time. Similarly, they are required to reduce their complaint resolution time. Moreover, conventional banks perform lower compared to Islamic banks in productivity growth and credit growth. Therefore, conventional banks are required to improve their internal business process by providing sufficient and appropriate training for their employees, possibly altering the business policies, and improving employee's remuneration.

The research findings concerning financial performance suggest that convention banks perform lower compared to Islamic banks in return on equity. Thus, conventional banks should focus on improving the performance on the other aspects of performance that include customer satisfaction, employee satisfaction, and internal business process in order to have a higher return on equity. Similarly, Islamic banks performed lower in return on assets compared to conventional banks. Hence, Islamic banks should emphasise on increasing their return from investments possibly by reviewing their investment policies.

### 8.3.2 Theoretical Implication

This research intensifies the existing knowledge in the area of religiosity and performance. Firstly, it develops research hypotheses by reviewing the determinants of four aspects of performance from western views and Islamic views. Secondly, it provides empirical evidence to accept or reject the developed hypotheses. This further provides a hint to the existing knowledge with regards to religiosity and performance.

As this study assesses the performance of Islamic banks compared to conventional banks based on financial and non-financial measures, it introduces a new dimension to the existing performance measurement that only concentrates on financial aspect of performance. In addition, the previous comparative studies of bank performance measurement in Bangladesh are conducted theoretically rather than empirically, this study, therefore, strengthen the body of knowledge through empirical evidence in the field of customer satisfaction and employee satisfaction in the case of Bangladesh.

The existing literature (For example, Melnic, 2016; Panda and Kondasani, 2014; Sulieman, 2013; Lau et al., 2013) with regards to customer satisfaction suggest that the SERVQUAL is the most widely and acceptable model to measure customer satisfaction. However, as far as the researcher concern, no study has been conducted that adopts the SERVQUAL model to measure bank customer satisfaction in Bangladesh. Thus, this research enriches the existing study and provide methodological indication for further research to be carried out to measure customer satisfaction. Similarly, despite the BSC is a popular framework for performance measurement, to the best of the researcher knowledge, there is no comparative study of bank performance between Islamic banks and conventional banks in Bangladesh which adopts the BSC. Hence, this research enhances the current literature and supports further studies to develop conceptual understanding in measuring bank performance.

### 8.4 Limitations of the Study

This study selects respondent sample from the research population frame by adopting a non-provability sampling technique. A non-probability sampling does not guarantee the sample to be representative of the population (Sekaran and Bougie, 2016) which is considered as a limitation of the study. However, to make the research sample representative, this study selects respondents carefully based on researcher judgment on respondents' characteristics, traits, and behaviours suggested by Sekaran and Bougie (2016). In addition, as this study does not adopt the random sampling, there is a potential risk to be biased in selecting the respondents. However, the researcher is aware of the chance of being biased and conducted the research in a highly professional and meticulous manner to eliminate the potential partiality.

Moreover, due to time and budget constraint, this research selects a sample from conventional banks in Bangladesh. The findings of the current research would be more vigorous and reliable if the entire population could have been considered. However, in order to ensure the representativeness of the research sample, the current research adopts the sampling techniques by reviewing the previous similar empirical studies and by having discussions with other PhD colleagues and supervisors.

Furthermore, this study measures the performance of the banking sector in Bangladesh by adopting the concept of the BSC model. However, the aspects of performance outlined by the BSC model have been criticised. The studies (For example, Epstein and Manzoni, 1998; Brignall, 2002; Voelpel et al. 2006) raised the issue that the BSC model only focuses on the four dimensions of the performance which are internal to business. These studies also stated that the BSC should have included the external aspects of performance such as suppliers, politics, and economy. The current study is aware of these criticisms, however, due to time and cost constraints, no further aspects of performance is included in the current research and recommended for further research. Besides, the literature (discussed in section 3.1) indicate that the BSC is most acceptable and widely used model for performance measurement despite criticism. Also, there are other performance indicators within the four aspects of performance such as innovation, social and regulatory which could have been used for robust findings, but due to the time limitation of the research, only the key performance indicators in the four aspects of performance have been considered for the current study.

In addition, this study adopts the service quality model called SERVQUAL to measure customer satisfaction. However, Buavaraporn and Tannock (2013) criticised the SERVQUAL model due to its sole concentration on the functional part of service (it means service delivery process) and ignorance on the technical aspects of the service (it means what a customer receives from the service transaction). However, according to the literature discussed in chapter three section 3.2.1, the SERVQUAL is a widely used and acceptable model in measuring customer satisfaction. Besides, due to time restriction, the technical aspects of the service quality have not been considered in the current study but recommended for further research.

## 8.5 Recommendations for Further Research

This research has been conducted in Bangladesh where the majority of the respondents are Muslims. By testing the hypotheses, this research suggests that the superior performance of Islamic banks in all aspects of performance is due to religiosity. Thus, a similar study can be conducted in a non-Muslim majority country to investigate the performance of Islamic banks compared to conventional banks.

The current study measures the banks' performance considering the four aspects of performance suggested by the Balanced Scorecard model. The four aspects of performance are internal to a bank. Therefore, further study can be conducted that includes external (For example, suppliers, pressure group, politics, and economy) and internal factors in measuring a bank performance.

In order to measure customer satisfaction, this study concentrates on the functional part of a service (a service delivery process) and does not consider the technical aspect of a service (what a customer receives from a service transaction). Thus, further study can be conducted in order to examine customer satisfaction by considering both technical and functional aspects of service. In addition, due to time and budget constraint, this research collects primary data from a sample of the population to measure customer satisfaction and employee satisfaction. Thus, further study can be carried out to measure customer satisfaction and employee satisfaction from the whole population for vigorous research findings.

In terms of internal business process, this study focuses on the key measures based on customer management process and operation management process. However, the internal business process includes a wide range of areas such as innovation process, regulatory process, and social process. Thus, further research can be conducted to measure bank's internal business process considering innovation process, regulatory process, social process, customer management process, and operation management process.

## 8.6 Epilogue

This study aims to measure the performance of Islamic banks compared to conventional banks in Bangladesh. In line with the research aim, four objectives have been constructed that have been presented in chapter one. In order to fulfil the research aim and objectives, data have been collected from primary and secondary sources by questionnaires and from the banks' annual reports. The findings of the research suggest that Islamic banks perform higher compared to conventional banks with regards to all four aspects of performance. The higher performance of Islamic banks is believed due to the distinctive characteristics of Islamic banking and the religiosity of their customers and employees.

Finally, this research has fulfilled the research aim and objectives leading to answering the research question that consequently provides significant implications for theory and practice.

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## Appendices

### Appendix 1: Customer Satisfaction Questionnaire

Centre for Islamic Finance

University of Bolton, United Kingdom.

Email: mkh1cif@bolton.ac.uk

# Bank Customer Satisfaction Questionnaire

**Bank Name (Mostly visited): ____________________________**

Dear Respondent

This questionnaire aims to measure customers' understanding and opinion on service quality of the banks. Therefore, as a customer of a bank, your valuable opinion is important to identify the level of customer satisfaction. Your cooperation is highly appreciated and it will greatly contribute toward the success of this research.

**General Instructions and Information:**

1. Please tick/circle on the most appropriate box.
2. All the information you provide are the academic purpose only and will be dealt with strict confidentially.
3. If you do not have the exact answer to the question, please provide your best judgment.

**Section 1: Service Quality and other aspects of satisfaction**

The following statements are related to various aspects of bank's customer satisfaction. For each statement, please circle the number which most accurately reflects your satisfaction level experienced from your current bank.

| | Statements | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|---|---|---|---|---|---|---|
| 1 | Your bank operates according to their advertised promise. | 1 | 2 | 3 | 4 | 5 |
| 2 | Your bank has the ability to perform the promised service accurately and reliably. | 1 | 2 | 3 | 4 | 5 |
| 3 | Employees are not willing to help customers promptly. | 1 | 2 | 3 | 4 | 5 |
| 4 | Your bank has an appealing interior design and facilities. | 1 | 2 | 3 | 4 | 5 |
| 5 | Your bank has modern IT equipment. For example, cash/cheque deposit machine, Online banking. | 1 | 2 | 3 | 4 | 5 |
| 6 | Employees are appeared neat and clean. | 1 | 2 | 3 | 4 | 5 |
| 7 | Employees have the ability to provide swift services. | 1 | 2 | 3 | 4 | 5 |
| 8 | Customers' applications are not processed on time. | 1 | 2 | 3 | 4 | 5 |
| 9 | The products of your bank meet customers' financial (Banking) demand. | 1 | 2 | 3 | 4 | 5 |
| 10 | Employees have the right knowledge to answer customers' queries and problems. | 1 | 2 | 3 | 4 | 5 |
| 11 | Customers queries and problems are not dealt sincerely and professionally. | 1 | 2 | 3 | 4 | 5 |
| 12 | The employees understand and pay attention to every customer's banking requirements. | 1 | 2 | 3 | 4 | 5 |
| 13 | The employees have customers' best interest at the heart of their services. | 1 | 2 | 3 | 4 | 5 |
| 14 | Customers feel that they are respected. | 1 | 2 | 3 | 4 | 5 |
| 15 | Customer contact employees are not friendly to all customers. | 1 | 2 | 3 | 4 | 5 |
| 16 | Service personnel are courteous with all customers. | 1 | 2 | 3 | 4 | 5 |
| 17 | Customers feel safe in their transactions. | 1 | 2 | 3 | 4 | 5 |
| 18 | Customers wait in a long queue at the counter. | 1 | 2 | 3 | 4 | 5 |
| 19 | Customers can contact required employee when they needed. | 1 | 2 | 3 | 4 | 5 |
| 20 | The bank can be contacted by telephone or email. | 1 | 2 | 3 | 4 | 5 |
| 21 | The bank has ATM in convenient locations. | 1 | 2 | 3 | 4 | 5 |
| 22 | The bank does not inform customers regarding all the necessary information. | 1 | 2 | 3 | 4 | 5 |

23. How long have you been a customer of this bank? (Please tick (√) on appropriate box)

☐ Less than 1 year

☐ 3 - 5 years

☐ 1 - 3 years

☐ More than 5 years

24. Have you ever complained regarding the banking services with your current bank?

☐ Yes

☐ No (Please go to Section 2)

25. How satisfied are you with the complaint initial response time?

1 Highly Dissatisfied ☐

2 Dissatisfied ☐

3 Neutral ☐

4 Satisfied ☐

5 Highly Satisfied ☐

26. How satisfied are you with the complaint resolution time?

1 Highly Dissatisfied ☐

2 Dissatisfied ☐

3 Neutral ☐

4 Satisfied ☐

5 Highly Satisfied ☐

**Section 2: Personal Information:** (Please tick (√) on an appropriate box)

27. Gender:

☐ Male ☐ ☐ Female

28. Age:

☐ ☐ Below 20 ☐ ☐ 41 – 50

☐ 21 – 30 ☐ Above 50

☐ 31 – 40

29. Occupation:

☐ Business ☐ Service ☐ Retired ☐ Student ☐ Unemployed

30. Marital Status:

☐ Single ☐ Married ☐ Widow

**Appendix 2: Employee Satisfaction Questionnaire**

Centre for Islamic Finance

University of Bolton, United Kingdom.

Email: mkh1cif@bolton.ac.uk

## Bank Employee Satisfaction Questionnaire

**Bank Name: ___________________________**

Dear Respondent

This questionnaire aims to measure the employees' understanding and opinion on various aspects of job satisfaction in banks. As an employee of a bank, your valuable opinion is important to identify the level of employee satisfaction. Your cooperation is highly appreciated and it will greatly contribute toward the success of this research.

**General Instructions and Information:**

1. Please tick/circle on the most appropriate box.
2. All the information you provide are the academic purpose only and will be dealt with strict confidentially.
3. If you do not have the exact answer to the question, please provide your best judgment.
4. To obtain a true view, it is very important that you DO NOT discuss with colleagues in scoring your opinion.

**Section 1: Job satisfaction**

The following statements are related to various aspects of your job satisfaction. For each statement, please circle the number which most accurately reflects your satisfaction level at work.

| How satisfied are you with- | | Highly Dissatisfied | Dissatisfied | Neutral | Satisfied | Highly Satisfied |
|---|---|---|---|---|---|---|
| **Supervision** | | | | | | |
| 1 | Management and leadership skill of your immediate supervisor. | 1 | 2 | 3 | 4 | 5 |
| 2 | Conflict resolution skills of your immediate supervisor | 1 | 2 | 3 | 4 | 5 |
| 3 | Communication between the employees and immediate supervisor | 1 | 2 | 3 | 4 | 5 |
| 4 | Management and leadership skill of your directors or expert body. | 1 | 2 | 3 | 4 | 5 |
| **Company policy** | | | | | | |
| 5 | The policies of the bank | 1 | 2 | 3 | 4 | 5 |
| **Training** | | | | | | |
| 6 | The training programmes in the institution. | 1 | 2 | 3 | 4 | 5 |
| 7 | The amount of training you received to perform your job | 1 | 2 | 3 | 4 | 5 |
| 8 | The available opportunities in your work for learning and growth | 1 | 2 | 3 | 4 | 5 |
| **Working Conditions and Environment** | | | | | | |
| 9 | The access to the facilities necessary for performing your tasks. | 1 | 2 | 3 | 4 | 5 |
| 10 | The healthy working condition, for example, clean indoor air, sufficient light, and safety drinking | 1 | 2 | 3 | 4 | 5 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | water | | | | | |
| **Remuneration** | | | | | | |
| 11 | Your salary | 1 | 2 | 3 | 4 | 5 |
| 12 | Your salary as compared to external comparable banks. | 1 | 2 | 3 | 4 | 5 |
| 13 | The reward system for extra ordinary performance. | 1 | 2 | 3 | 4 | 5 |
| **Promotion** | | | | | | |
| 14 | Your career progression opportunity at the company. | 1 | 2 | 3 | 4 | 5 |
| **Recognition** | | | | | | |
| 15 | Company's recognition for your better performance | 1 | 2 | 3 | 4 | 5 |
| **The job itself** | | | | | | |
| 16 | The work (It means the job is according to your expectation) | 1 | 2 | 3 | 4 | 5 |
| **Relationship** | | | | | | |
| 17 | The involvement of colleagues with other competencies in your work | 1 | 2 | 3 | 4 | 5 |
| 18 | Respect from your co-workers or colleagues | 1 | 2 | 3 | 4 | 5 |
| 19 | The teamwork in your sector | 1 | 2 | 3 | 4 | 5 |
| 20 | The relationships between employees in general? | 1 | 2 | 3 | 4 | 5 |
| **Workload** | | | | | | |
| 21 | The number of employees available to perform the work in your department. | 1 | 2 | 3 | 4 | 5 |
| 22 | The bank's expectation on the amount of work you need to perform. | 1 | 2 | 3 | 4 | 5 |
| 23 | The working hours of the bank | 1 | 2 | 3 | 4 | 5 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Participation** | | | | | | |
| 24 | The participation in the management meeting. | 1 | 2 | 3 | 4 | 5 |
| 25 | The possibility to elaborate your opinion on different work-related aspects? | 1 | 2 | 3 | 4 | 5 |

**Section 2: Personal Information** (Please tick (√) on an appropriate box)

26. Gender:

☐ Male ☐ Female

27. Age:

☐ 18- 35 ☐ 46-60

☐ 36-45 ☐ Over 60

28. How many years have you been with the company?

☐ Less than a year ☐ 4 - 6 years

☐ 1 - 3 years ☐ More than 6 years